

ZERO-BASE BUDGETING AND POLITICAL RATIONALITY:  
PROBLEMS OF IMPLEMENTATION

BY

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To David

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This study examines the successes and failures of the zero-base budgeting reform movement, and posits the theory that a lack of political sophistication led to its ultimate demise. Many of the analyses of zero-based budgeting focus on the administrative difficulties encountered by the governmental jurisdiction attempting to use ZBB. In particular, critics argue that the process creates unwieldy amounts of paperwork, creates psychological consternation in agencies that are forced to place a priority ranking on their programs, and relatively useless as a tool for achieving cost reductions since it does not address the problem of uncontrollable expenditures. Other critics argue that comprehensive decision-making schemes, such as ZBB, place unrealistic demands on man's cognitive capacities. They assert that incremental decision-making is both more realistic and more

desirable in a democratic society. The problems discussed in both of these arguments are examined, but the conclusion is reached that they are not of sufficient magnitude to cause abandonment of the system. The proposition is therefore advanced that ZBB was guilty of a lack of political sophistication. Following its requirements placed administrators in a position of incurring the wrath of clientele groups and elected officials, thus increasing the tendency to manipulate the system to advance parochial interest and placed elected officials in the untenable position of having little room for compromise on either programs or objectives. ✓

To test this hypothesis, the ZBB experience in the federal and in state governments is examined, with attention given to the conflicts between expectations of the ZBB system and the orientations to which the budget has traditionally been tailored. The results of two empirical studies that were conducted in Florida counties are then reported. Evidence from these studies indicate that ZBB might prove a useful method for allocating funds in a jurisdiction with an expanding budget, but creates massive political problems when cut-back management is necessary. ✓

## CHAPTER 1

### INTRODUCTION

One of the most complex, ill-understood, yet vitally important undertakings of a governmental unit is the budgeting of revenues. When the final product is approved by a governing board it reflects not only how much will be spent for which purpose, but also which societal values will be stressed, which groups will gain or lose stature, and whose political fortunes will be enriched or impoverished. A close examination may reveal implicit future promises as well as lengthy program requirements and the revenues that they will necessitate. The budget's preparation and presentation provide clues that indicate which aspect of management is to be stressed. In its final form, however, the budget will almost certainly never betray the intense bargaining and strategic manipulations that have occurred among and between elected officials, agency personnel, and interest groups-- all seeking to protect their positions and promote their causes. Policy-makers and budgeting practitioners alike advance their choices as ones made through rational thinking and calculated reasoning, with personal preferences and divergent political philosophies downplayed. Consequently, from time to time new methods of formulating and presenting budgets are advanced, with their major emphasis reflecting the economic and management

concerns of the time. Budget reforms, however, are notoriously short-lived, with failure coming for a variety of reasons.

This study will closely examine the latest budgetary reform movement, one that has seemingly enjoyed considerable popularity at all levels of government, zero-base budgeting. While the processes attached to zero-base budgeting are novel concepts, especially in governmental budgeting, the aspirations, successes, and failures of the system are characteristic of other budgetary formats. Zero-base budgeting (ZBB) was developed for private industry by Peter Pyhrr, then of Texas Instruments, Inc. An influential article by him describing the benefits of the system appeared in Harvard Business Review and captured the attention of then-Governor Jimmy Carter, who introduced ZBB into governmental circles by having the State of Georgia prepare its Fiscal Year 1973 budget using a ZBB format. When Mr. Carter was elected to the Presidency, he promised reduced federal spending along with more efficient and effective service delivery. In an attempt to deliver on this promise, he mandated the use of ZBB for all Federal agencies in the preparation of their Fiscal Year 1978 budget.

Although this is essentially a study of the ZBB experience in local jurisdictions, the historical data and comparative experiences rely heavily on the federal experience. The reasons for this are essentially twofold. First, the Federal government has traditionally been the leader in implementing innovative budgeting techniques. Most states and localities who have experimented with various budgetary formats have done so as a result of what they perceived as success by the

Federal government with the methods in question. Their concerns and priorities at budget time usually parallel those of the Federal government, thus techniques used at one level seem applicable at the other. The second reason is a more pragmatic one. State and local use of ZBB has been much more limited and much less well-documented than the Federal utilization. While some studies of their experiences exist, they are much less thorough or extensive, and provide considerably less insight into the ZBB process than do studies of the Federal experience. Nevertheless, as I hope to demonstrate, the total experience on one level-- expectations, failures, successes, and methodology-- are applicable to the other.

An examination of the reasons for changes in budgeting techniques is frequently as interesting and informative as a study of the techniques themselves. To place the ZBB experience in its proper perspective as a budgetary reform, this study will first examine the tradition behind reform movements and the uses to which the budget has been tailored. By focusing on the various orientations that budgeting can exhibit and by providing comparative data on previously popular formats, we can evaluate the total effect of ZBB on the legislative and executive processes. To this end, Chapter 2 will outline the control, management and planning orientations of budgeting. The formats and techniques associated with each orientation will be briefly reviewed, along with a synopsis of the advantages and subsequent

disadvantages that eventually led to abandonment of the systems. Many of the features of these budgets were synthesized into ZBB. Many of their pitfalls foreshadow the problems associated with ZBB.

The formats themselves, however, display only the final product resulting from months of agency planning, analyzing policy options, and evaluating realistically what one's final budget outcome is likely to be. It is this cumulative knowledge that is translated to a program on paper and its financial requirements. Many commentators argue that the method of decision-making by which these programs and figures are identified by agencies, and acted upon by legislators, is the most critical aspect of budgeting. There are essentially two methods of budgetary decision-making, incrementalism and rationalism, although hybrids of the two have been advanced from time to time. Incrementalism has been the traditional method and describes a form of decision-making that relies heavily on past experiences as a guide to future actions, thus small changes from an existing base are made in both policy alternatives and dollar amounts. Its supporters praise it as flexible, realistic, and descriptive of the democratic process. Its opponents, on the other hand, criticize it as protective of the status quo and lacking in overall policy analysis. They charge that incrementalism is responsible for the "fat" in agency budgets, and propose to change that by adopting a rational method of calculation. This method, also known

as the comprehensive method, would have the decision-maker define a problem, set a goal, identify alternative means of achieving it, and choose the most advantageous from among them. Opponents of this method argue that its application is impossible, particularly in government where clear-cut choices of optimal policies do not exist. Nevertheless, advocacy of rationalism has become popular since it appears to offer a way to harness government expenditures and provides an objective way to make decisions.

It was in the name of achieving these two objectives that ZBB was introduced to government by President Carter. Chapter 3 looks at the promise of ZBB, gives a brief description of how to do ZBB, and analyzes the benefits that supporters claimed were to be derived from implementing a ZBB system. According to early advocates, two broad potential benefits could be expected: economy and efficiency in government. This was to be realized by having organizations internally define decision-units, develop decision-packages, and systematically rank those packages according to their priority in the organization. The jurisdiction (Federal, state, local) could then develop a broad ranking encompassing all agencies and functions. With this in hand, legislators could clearly see the consequences of funding each service at each level and could hopefully make well-informed, less parochially-oriented decisions.

Not only was ZBB billed as a tool to harness budget



growth, but also as a means of achieving better planning and more objective performance and policy analysis. Finally, it offered an alternative to the traditional line-item budget, thus, it was to be an educational tool for managers and legislators alike. They would be forced to think about options and examine the worthiness of each part of their programs, as well as the program itself. As they became aware of how each program fit into the jurisdiction's overall goals and missions, they would become more sensitive to problems of resource allocations and would feel less urge to protect their turf at the expense of others.

As we shall see in Chapter 4, the expectations surrounding the use of ZBB far outweigh its ability to perform. Disappointment with the system has led commentators to enumerate a variety of shortcomings. Most of these criticisms, however, fall into two broad categories: an analysis of implementation problems, mostly mechanical and psychological, that ZBB causes in an agency, and an assertion that ZBB must fail because it makes assumptions of man's cognitive abilities which are simply unrealistic. Chapters 4 and 5 will explore some of the implementation problems, while Chapter 6 will concentrate on the cognitive criticisms.

Many jurisdictions that have attempted ZBB have found it to be a cumbersome and unwieldy process to use. The general charge against it is that there is simply not enough time during the budget preparation stage to do all the things ZBB requires. The more specific charges are that, as a tool

for achieving cost reductions, ZBB has been a failure. This has occurred primarily for two reasons: it has not penetrated the "uncontrollable" items which make up a large portion of the budget, and it has not altered the decision-making process whereby the remainder of the budget is allocated, nor the format in which it is presented and adopted. Additionally, it has created a mountain of paperwork, along with a feeling of vulnerability in an agency when it is forced to submit proposals for reduced budgets and then identify which programs and which levels of funding it considers most important. Agencies further charge that the ranking process asks for artificial comparisons among incomparable functions. Finally, agencies argue that composing performance measures and specifying alternatives that will lead to greater efficiency are difficult to accomplish because of the technical difficulties associated with them, and because of the behavioral implications that rebound to the organization from poorly constructed measures.

The more zealous advocate of reform may easily say that these problems are merely stumbling blocks set up by agencies who are unwilling to rigorously analyze the worth of their functions and the manner in which they have discharged their duties. Some scholars, however, maintain that rational decision-making methods, such as ZBB, assume more intellectual capabilities than humans possess. Chapter 6 will explore some of the intellectual requirements

of rational decision-making and contrast them with the requirements of the incremental approach. The problem of value articulation will be examined as well as the consequences and costs of rationality.

As has been noted, virtually all of the analyses of ZBB focus on the time-consuming and organizationally disruptive technical requirements and the unrealistic intellectual demands of the system. While these are indeed valid criticisms of ZBB, they ignore what could very well be the most overwhelming argument against ZBB as a viable budgetary technique; specifically, that administrators and legislators feel they are forced into a politically vulnerable posture, which they must constantly avoid in order to maintain their positions. The naivete displayed by ZBB in this respect can occur on several fronts. In some cases, politicians may want to avoid translating line-item appropriations into specific program choices since ambiguity generally leaves more leeway for necessary compromise and bargaining. In other cases, ZBB may cause political problems since, by highlighting areas for program reductions, the astute administrator can mobilize interest group support to bolster his cause. These and evidence of other political problems that can occur in jurisdictions using ZBB will be argued in Chapter 7.

Finally, Chapter 8 will present empirical studies of the use of ZBE in Orange County and Broward County. The data in this chapter were gathered from an analysis of

of budget documents and figures in those counties as well as interviews, often extensive, with County Commissioners, budget analysts, and department heads who were involved in zero-base budgeting. Their commentaries cover the spectrum of complaints on ZBB discussed thus far and convincingly substantiate the theory that ZBB's lack of political sophistication will ultimately lead to its demise. Material presented in this chapter will also go beyond a recapitulation of the zero-base budgeting system and a conclusion regarding its political innocence to a brief survey of what appears to be future trends in government budgeting now that revenue shortfalls have become a reality requiring action rather than planning.

The final chapter will present a brief conclusion that summarizes the finding of this study and analyzes the successes ZBB enjoyed and the failures it has suffered as it has carved its place among budgetary reform movements.

CHAPTER II  
BUDGETARY REFORM MOVEMENTS:  
THE PRELUDE TO ZERO-BASE BUDGETING

In order to focus clearly on current practice and attempt to assess the successes as well as the shortcomings of ZBB, it is necessary to first examine previously proposed budgeting systems, the tradition behind reform movements, and the uses to which the budget has been tailored. To that end, this chapter will analyze the control, management, and planning orientations of budgeting. It will further review some of the budgeting formats associated with each in an attempt to relate some of their features and pitfalls to the ZBB experience. Equally as important as the final budget format and its contents is the decision-making method by which it was formulated. The two primary methods, incrementalism and rationalism, will be described, along with the implications of each for budgetary outcomes.

The budget has always served multiple purposes, but its traditional function has been to legitimize and circumscribe expenditures.<sup>1</sup> At the United States Federal Government level, the budget's origins were rooted primarily in political and secondarily in economic circumstances. As one writer points out:

The passage of the Budget and Accounting Act of 1921 resulted from cries for tax reduction following a major

increase in direct taxes levied in order to finance the debt service on World War I obligations. Taxes could be reduced only by curtailing expenditures, and this in turn required a modern budgeting system.<sup>2</sup>

The emphasis at this time was obviously on exercising fiscal restraint, and some contend that even today the one overriding purpose for preparing and administering a budget is to control expenditures.<sup>3</sup>

Growing complexity in government and the need for effective executive control has over time led to the incorporation of a multitude of other criteria in the formulation of a budget, including performance measurement and program analysis, which has lent a management perspective to the budget. In terms of budgeting history, planning has relatively recently been viewed as an explicit purpose of the budget, although even the most rudimentary budgeting systems have been conceived as a "process for systematically relating the expenditure of funds to the accomplishment of planned objectives."<sup>4</sup> Schick identifies three distinct administrative processes, operationally indivisible but analytically distinguishable, which comprise every budget system: strategic planning, management, and operation control.

In the context of budgeting, planning involves the determination of objectives, the evaluation of alternative courses of action, and the authorization of select programs. . . .

Management involves the programming of approved goals into specific projects and activities, the design of organizational units to carry out approved programs, and the staffing of these units and the procurement of necessary resources. . . .

Control refers to the process of binding operating officials to the policies and plans set by their superiors.<sup>5</sup>

Schick goes on to link planning primarily to budget preparation, while management is spread over the entire cycle and ideally provides the link between goals and activities. The control process surfaces mainly during the execution and audit stages of the budget cycle.

As a general rule, greater emphasis is placed at the central level on one of these processes. In terms of administrative abilities, scarcity of time, different skill requirements, and different informational needs preclude giving equal consideration to each process. Thus while all three processes are in evidence, a budget system will exhibit predominately either a planning, a management, or a control orientation. Accordingly, each new reform or different budgeting method will alter the planning-management-control balance. It is with this context in mind that we can analyze some of the budgeting methods introduced prior to zero-base budgeting and relate them to this latest reform movement.

#### The Control Orientation of Budgeting

Although budgeting methods are numerous, they all fit into three broad reform movements, according to Schick.<sup>6</sup> The first stage, dating from the early 1900's to approximately 1935, featured a control orientation. A management orientation was introduced with the advent of the New Deal era, and the current planning orientation entered the mainstream in the 1960's. Before the establishment of the federal budgetary system in 1921, there was considerable debate on the goals a budget should hope to accomplish and the format by which it

should be prepared. Control was of paramount concern since the early part of the century saw governmental units that were staffed by personnel who were not civil service appointees and who were consequently not accountable to the general public. There was evidence, however, of a parallel interest in "being able to obtain the best return in program terms for resources spent."<sup>7</sup> This was particularly apparent in the 1912 report of the Taft Commission on Economy and Efficiency:

In order that he [the administrator] may think intelligently about the subject of his responsibility he must have before him regularly statements which will reflect results in terms of quality and quantity; he must be able to measure quality and quantity of results by units of cost and units of efficiency. <sup>8</sup>

Other scholars of the time likewise advocated relating resources to program results, and some practitioners attempted to follow their advice. One of the earliest attempts to incorporate planning into budgeting came in 1912 when a borough in New York City advanced a budget for three functional areas, street-cleaning, highways, and sewers, that set forth what accomplishments could be expected under the budget. The plan proved to be too rigid, however, and was abandoned in 1915.<sup>9</sup> Still, in accordance with the Taft Commission findings, the New York City Bureau of Municipal Research advocated the preparation of a budget by functional accounts to facilitate rational program choices rather than by the line-item objects-of-expenditure that were gaining in popularity. Circumstances of the time, however, pointed to a more urgent need for control over unreliable personnel than for the fine-tuning that a planning-



functional emphasis would allow. As Schick points out, the first consideration became one of how to prevent administrative improprieties:

In the opinion of those who were in charge of the development of a budget procedure, the most important service to be rendered was the establishing of central controls so that the responsibility could be located and enforced through elected executives. . . . The view was, therefore, accepted, that questions of administration and niceties of adjustment must be left in abeyance until central control has been effectively established and the basis has been laid for careful scrutiny of departmental contracts, and purchases as well as department work. 10

Functional accounts and work programs were still included in some budgets, but they fell from favor as more and more, the legislative bodies appropriated funds by objects, a situation which many argue is still the case today. Thus, "from the start, federal budgeting was placed on a control, object-of-expenditure footing,"<sup>11</sup> with emphasis placed on accounting at the expense of analysis of long-range policy implications. The budgeting system that evolved from this period, and which many argue is still the prevalent form, has been condemned for a number of reasons, among them that it is irrational and short-sighted, and it is indeed marked by characteristics which would make it appear just so. It is an annual budget that requires yearly review, incremental in that it departs only marginally from the year before, comes in the form of line-items which may or may not be related to programs and focuses on inputs rather than outouts.<sup>12</sup> Despite these apparent shortcomings, the traditional budget has staunch supporters who praise it for its flexibility, simplicity, and

political acumen, and point to its staying power as evidence of its quality. Specific characteristics of the traditional budget and how they relate to and differ from other budgetary forms will be discussed as appropriate in subsequent chapters.

#### The Management Orientation of Budgeting

The need for control, while still a major concern of budgeting, became less overwhelming as the public service acquired more professional personnel and developed more reliable accounting procedures. At the same time, popular opinion of the proper purview of government expanded to include more activities and expenditures than had previously been the case, and the need to coordinate these activities became a more pressing concern. This became especially apparent during the New Deal years. Government expenditures increased dramatically from 1932 to 1940, and with the new economic philosophy came a push to use the budget to coordinate Federal activities under presidential leadership.<sup>13</sup> Scholars of the time were also lamenting the mechanical nature of budgeting and chastising practitioners for not using more analysis of program impacts in making major decisions. V. O. Key, Jr. criticized budgetary literature for not addressing itself to the "basic budgeting problem" of comparing the merits of alternative programs, while others suggested that "budgeting should be reformed to achieve program and financial planning on a multi-year basis."<sup>14</sup> A concentration on assessing the efficiency of the work process was encouraged as a major focus of the budget in an attempt to appraise and

improve administrative performance. Accordingly, performance budgets were introduced. Billed as more sophisticated than the line-item object-of-expenditure budget, the performance budget was to be based upon functions, activities, and projects. Definitions of performance budgeting are numerous, but the following provides a simplified description:

performance budgeting focuses on the activities, work measurement, workload, and unit costs of an organization. It emphasizes efficiency rather than the attainment of the missions and objectives of a program. Performance budgeting calls for major changes in the budget process with the allocation of funds to agencies on the basis of expected performance and costs for each activity or cost center and not on the basis of a review of objects of expense.<sup>15</sup>

Efficiency, under the performance budgeting concept, was measured by relating a unit of output to the resources used to accomplish it. This was to be achieved by introducing activity classifications to the budget document and adding descriptions of programs and performance. The narratives were supposed to provide the general public with a better understanding of what an agency was doing as well as theoretically committing agency personnel to a given quantity of work.<sup>16</sup> Then a multitude of detailed work-load statistics were gathered to relate exact costs to particular activities. The Post Office, for example, identified the number of letters that could be processed by one employee per hour, the anticipated number of letters for the next year, and calculated manpower needs from these statistics. Other agencies delineated figures to such minute items as the cost to wash a pound of laundry or the unit cost of an X-ray in a large hospital.<sup>17</sup> It is the workload

statistic aspect of performance budgeting that has been most severely criticized, for basically two reasons. Commentators argue that workload statistics may be useful for the operating manager who has the limited function of getting a job done, but are at best only "distantly and indirectly related to the process of determining governmental policy at the higher levels."<sup>18</sup> Thus their value to top policy-makers is extremely limited and they may actually be a hindrance as they place an unreasonable burden on one's time and intellectual capacities. The second criticism of workload statistics is that their formulation is often, for the most part, busywork in that "with rare exception [they] do not relate directly to appropriations, and seldom do they relate to specific goals or objectives established for the programs described."<sup>19</sup> Their inclusion in a budget is often a formality that does not indicate what is actually being accomplished with public funds.<sup>20</sup>

All this leads to some questioning of the value of performance budgeting techniques to the actual practice of budgeting and a reassessment of whether the basis for making budget choices was in fact influenced. Evidence seems to indicate that it was not. One particularly candid budget official, who appears to have ample support for his opinions from others, asserts that the advantages of performance budgeting over line-item budgeting is simply nothing more than that it looks better:

The visible ingredients of performance budgeting--the budget document, performance data, workload statistics, activity descriptions, etc.--are usually very impressive and indicate to the casual observer that the administrative staff is "on the ball" and that a considerable degree of analysis has been

devoted to determining (1) the appropriate level of performance and (2) what size of budget will be required to support that level. Only a few skeptics ever really attempted to determine whether or not better decisions were being made as a result of all this.<sup>21</sup>

Performance budgeting, while not disappearing altogether, slowly faded into the background. As indicated, few, if any, decisions were made using data generated by performance budgeting, mainly because they tell little about the effectiveness of an organization in realizing its goals. Performance budgeting also failed to replace the traditional line-item budget that was in place when it was introduced. "Objects-of-expenditure retained their preeminence, and were merely supplemented by program information, activity classifications, and workload data."<sup>22</sup> Schick further found that in many states and localities as well as in the federal budget, the costs of existing programs and those of new or expanded programs were separated, thus perpetuating the practice of building a budget in terms of increments or decrements from the base rather than having programs compete on a merit basis with all others for funding.<sup>23</sup>

Also associated with the management orientation stage of budgeting were the early efforts at program budgeting, which came in the 1930's. One major effort occurred when the U. S. Department of Agriculture experimented with a system designed hopefully to "convey an understanding of financial needs in terms of work to be done and ends to be achieved. Another attempt at program budgeting occurred in 1938 when

the Tennessee Valley Authority set up an accounting system that would relate financial data to program efforts such as flood control, as well as exhibit the standard objects-of-expenditure.<sup>24</sup> Although program budgeting surfaced for management reasons, it has more of a planning orientation than does performance budgeting in that the end-product of an activity is evaluated rather than solely the activity itself. Alternative ways of obtaining proposed objectives are studied along with the costs and benefits of each, and output measures are developed to facilitate the attainment of those objectives.<sup>25</sup>

When the two concepts were first introduced, program and performance budgeting were often confused and the terms used interchangeably. Later, performance budgeting was seen as a continuance of program budgeting that added the unit cost figures to broad functions.

Although performance and program budgeting can, and often do, co-exist, they serve divergent functions. Performance techniques can be devised and applied without knowledge of larger program goals. The difference is one between the process of work described by the performance budget and the purpose of work described by the program budget.<sup>26</sup> Another difference is in how the budget itself is drawn up. Performance budgeting, like the traditional object-of-expenditure, was a bottom to top management endeavor with individual managers submitting their unit's needs. Program budgeting, on the other hand, requires that the main focus of the budget be a broader perspective than can be supplied by the unit

manager or sometimes even an aggregate of individual managers. As one commentator describes the program budgeting goals and process:

Ostensibly, program budgeting is an attempt to combine similar elements of service or performance into programs at least for the purposes of planning. Carried to the ultimate, program budgeting would require that the full cost of a function be set forth as an independent program regardless of the previously designated organizational units involved.<sup>27</sup>

It is this feature of reorganizing existing organizational units that has caused program budgeting to be unpopular and in many cases unworkable. Government institutions are frequently arranged so that lines of accountability follow organizational lines, and accountability still remains as one of the primary concerns of budgetary formats. And, some have charged, the requirements of program budgeting simply do not mesh with the well-entrenched realities of budget preparation.

Like it or not. . . budgets are still prepared in our governmental organizations "from the bottom-up"; therefore, longstanding departmental designations are reflected. And the existing departmental structures seldom, if ever, agree with an envisioned program structure if we were to start from scratch.<sup>28</sup>

Charles Binford goes on to assert that practitioners of program budgeting, like those of performance budgeting, can get so wrapped up in details that the system becomes an end in itself rather than a means to assist in better decision-making. He further charges that successful program budgeting requires considerably more sophisticated and stable personnel than are usually available in both budgeting offices and operating agencies.<sup>29</sup>

### The Planning Orientation of Budgeting

A more elaborate form of program budgeting emerged in full during the third stage of budget reform. This stage, which began roughly in the late 1950's, emphasized a planning orientation in budgeting. The method of budgeting that resulted from this focus is the now legendary Program-Planning-Budgeting System (PPBS). Several developments led to the gradual change from a management to a planning orientation. Analysts identify these broadly as, first, the attempts by welfare economists to construct a science of finance based on marginal utility. This method would study costs and benefits of alternatives and determine from them which combination of alternatives would provide maximum utility. Another development was the increasing sophistication of informational technologies such as systems analysis and operations research which made it possible to cope with large amounts of information and analysis. A final development has occurred as a result of the sheer increase in the size and expenditures of government. Programs with long-term commitments are prevalent as are agencies performing inter-related functions, thus the need for coordination has become more urgent.<sup>30</sup>

The recognized attempt to change budgetary methods came in the early 1960's when the Department of Defense developed its version of PPBS. When first introduced to the budgetary world, PPBS was widely praised as the ultimate tool for public management, and it deserves our particular



attention since many of the same problems and promises later became hallmarks of the zero-base budgeting system. Literally volumes have been written on the various attributes of PPBS, but there is general disagreement on its specific characteristics and requirements. The following, however, are its general distinguishing features:

- (1) Emphasis is on grouping similar functions into programs and budgeting and accounting accordingly. [Also a feature of program budgeting].
- (2) Program costs are identified not only for the current year and the budget year, but for a number of years in the future [multi-year costing].
- (3) PPBS is planning-oriented rather than control-oriented.
- (4) Zero-base budgeting. Theoretically, all programs compete from year to year on an equal footing regardless of whether or not they have been approved previously or at what level. . . .
- (5) Program goals and objectives are identified, with attempts made to measure the quality of service level or the effectiveness of the programs.
- (6) Quantitative evaluation of alternatives or benefit-cost analysis.<sup>31</sup>

The Department of Defense was a particularly appropriate place for the development of PPBS. The nature of the Department's work made planning and analysis critical; therefore, it already had on board a staff of well-trained analysts. Military hardware had become increasingly expensive and its procurement took a long time, thus multi-year financial plans were needed. Further, the offensive and defensive demands placed upon the military after World War II escalated, as did the available options for achieving desired goals. As one writer summarized the situation, "Given a goal of being able to destroy a military objective of a certain size with a particular set of defenses located so many thousand miles away, should one invest in long-range missiles,

strategic bomber forces, Submarine-launched ballistic missiles, or what?"<sup>32</sup> The environment, therefore, was ripe for the introduction of a system that would combine planning, analysis, and budgeting into one package. When Robert McNamara took charge of the Department of Defense in 1961, he was able to attract several people from the RAND Corporation who had done extensive developmental work with program budgeting. They, along with the Department's analysts, were able to prepare a budget built around the above-listed characteristics and one that attempted to advance solutions to critical questions of defense preparedness, although its final form for submission to Congress retained line-item objects-of-expenditure, presumably for the convenience of legislators.<sup>33</sup>

So impressed were other federal officials with the Department of Defense's new budget system that it was soon instituted throughout the federal government. On August 25, 1965, President Johnson instructed all federal agencies to adopt a PPB system. The expectations for PPBS were high, as is reflected in President Johnson's 1967 budget message to Congress:

Our most comprehensive effort to improve the effectiveness of Government programs. . . is the Planning-Programming-Budgeting System. This system. . . requires all agencies to: Make explicit the objectives of their programs; . . . Set out specific proposed plans of work to attain those objectives; and analyze and compare the costs and benefits of these plans against those of alternative methods . . . This method is primarily a means of encouraging careful and explicit analysis of federal programs. It will substantially improve our ability to decide among competing proposals for funds and to evaluate actual performance . . . .<sup>34</sup>

State and local governments also eagerly adopted PPB systems, with their expectations an echo of President Johnson's remarks. In recognition of PPB as a national movement, the State-Local Finances Project of George Washington University was set up to serve as a focal point for reform at the state and local level. Besides being a clearinghouse for information on PPB, it was to provide direct assistance to government officials who were eager to adopt PPB but were almost completely ignorant of its characteristics or requirements.<sup>35</sup> Although one would assume that budgeting practitioners would know a great deal about a system before advocating its adoption, this apparently was not the case. PPB spread throughout the government before anyone demonstrated whether its own benefits would outweigh its own costs. In the early years of PPB, about the only critic of PPB was Aaron Wildavsky, who wrote:

We would be in a much stronger position to predict the consequences of program budgeting if we knew (a) how far toward a genuine program budget the Defense Department has gone and (b) whether the program budget has fulfilled its promise. To the best of our knowledge, not a single study of this important experiment was undertaken (or at least published) before the decision was made to spread it around the land.<sup>36</sup>

As it turns out, taking Wildavsky's advice to study and evaluate the system before making a decision to implement it would have saved countless dollars and hours of futile work, and would have thwarted many frustrations and disagreements. By the late 1960's, the failure of PPBS was as legendary as its early fame. The late 1960's and early

1970's brought severe challenges to the effectiveness of the entire defense establishment including PPB. Many Federal agencies have likewise become disenchanted with the process and abandoned it at first opportunity. Its official death came on June 21, 1971, when the Office of Management and Budgeting circulated a memo advising agencies that they no longer need accompany their budget requests with multi-year program and financing plans or analytical studies that reconcile information classified according to their program and appropriation structures.<sup>37</sup> State and local jurisdictions had always been less than successful with PPB, and "By the close of the 1960's it was difficult to identify many ongoing PPB systems at the state and local levels."<sup>38</sup>

The reasons for its failure provide valuable insight into the political and institutional considerations of budgeting as well as providing a framework for evaluating the possibility of successfully implementing a zero-base budgeting system. One can find about as many shortcomings attributed to PPBS as there are writers on the subject of budgeting. There seems to be general consensus, however, that it failed for deficiencies in two broad categories: the way it was introduced and implemented, and the way its final form was presented. At the Federal level, PPB was introduced across-the-board to agencies who were unprepared and for the most part unreceptive. Conceived by economists, developed with the assistance of well-trained, department analysts, and encouraged by the top management, PPB seemed

quite successful in the Department of Defense. Other agencies, however, did not experience this wealth of in-house experience and encouragement. When faced with the sudden need to relate analysis to budget requests, many agencies "produced reams of unsupported, irrelevant justification and description... Plans [were] formulated without serious attention to objectives, resource constraints, and alternative opportunities."<sup>39</sup> These analytic descriptions apparently were then merely attached to budget requests but had little influence over their form or content. Budget formulation went on as usual, or, as Schick bluntly asserts, "PPB failed because it did not penetrate the vital routines of putting together and justifying a budget."<sup>40</sup> His conclusion seems well-supported by empirical data, including one 1969 study of 16 Federal agencies that reports "the planning, programming, and budgeting functions are not performed much differently in most agencies than they were before the introduction of PPBS."<sup>41</sup> One reason for this, as indicated, was the failure to translate analysis into budget choices, one of the essential characteristics of PPBS. Agency officials found a system they neither designed nor understood imposed upon them, and they reacted in one of two ways: "Program analysts were either separated from budget-making and rendered ineffectual, or smothered by the embrace of budgeteers so that budget pressures triumphed over program analysis."<sup>42</sup> On the state and local level, some analysts argue that control and management orientations and routines are so firmly entrenched that

they drive out planning and analysis.<sup>43</sup> Performance budgeting, as previously discussed, had not been successful in establishing reliable cost data for major segments of the budget in even one state, nor had input controls been abandoned for performance controls.<sup>44</sup> This is not, however, entirely due to institutional recalcitrance. An argument which one finds surfacing repeatedly in critiques of almost every proposed budgetary reform is that it is extremely difficult to devise a method for specifying, quantifying, or evaluating social program outputs. There may also be a measurement problem in military programs, one should point out, but it appears to be less of an obstacle than in civilian agencies. Social programs usually provide services whose effects are difficult to trace since many intervening variables can alter the end results.<sup>45</sup> Consequently, viable alternatives to present programs are difficult to formulate. Given the uncertainty of their success, in the traditional sense of the word, there is little impetus for an agency to advance them rather than advocating continuation or modification of present programs. At best, studies of programs with similar objectives can be conducted and their differences highlighted for use in future decision-making.

Further, analysis and the PPBS process will not help in making the budget choices which reflect vast national goals, nor are they particularly useful in making trade-offs among closely related policy areas. For a succinct statement

of the limitations of PPBS in this area, we turn to the congressional testimony of William Gorham, former Assistant Secretary of the Department of Health, Education, and Welfare:

Let me hasten to point out that we have not attempted any grandiose cost-benefit analysis designed to reveal whether the total benefits from an additional million dollars spent on health programs would be higher or lower than that from an additional million spent on education or welfare. If I was ever naive enough to think this sort of analysis possible, I no longer am. The benefits of health, education, and welfare programs are diverse and often intangible. They affect different age groups and different regions of the population over different periods of time. No amount of analysis is going to tell us whether the Nation benefits more from sending a slum child to pre-school, providing medical care to an old man or enabling a disabled housewife to resume her normal activities. The "grand decisions"--how much health, how much welfare, how much education, and which groups of the population shall benefit--are questions of value judgments and politics. The analyst cannot make much contribution to their resolution. 46

Indeed, the role of politics in making these choices regardless of the budgetary method employed is so vast and pervasive that it requires our full consideration in a later chapter.

All of this is not to belittle the importance of analysis in the planning of governmental programs, nor its valuable contribution in illuminating new and perhaps better ways of tackling problems. It is, rather, to emphasize that analysis and budgeting do not readily fit together since they essentially serve different functions. Analysis usually generates conflict as territorial rights and vital

interests are threatened by new options, while budgeting has traditionally concentrated on conflict suppression and has emphasized political and administrative bargaining to solve program and dollar disputes. Even those who disdain PPB welcome more policy analysis, but recognize the futility of attaching it to the budgetary process.<sup>47</sup>

Another reason why it appears to be futile, or at best frustrating, to link analysis to budgeting is that to do so requires what one analyst describes as overuse of the budget process:

It is basically unrealistic to expect city councils or appointed officials to remake decisions concerning program objectives and measures of performance, to analyze program alternatives, and to produce long-range financial projections while at the same time preparing and reviewing an annual expenditure program. All of these activities are legitimate and important management functions and can be effectively used to assist budgeting. However, they cannot be incorporated into an annual budget development process without making the process excessively costly and time consuming.

Put simply, a budget is one end-result of many management and policy-making functions. Budgeting, however, cannot encompass these functions.<sup>48</sup>

Linking analysis to funding choices was the attempt of PPBS to affect the broad perspective of budgeting. Many commentators argue, however, that a significant reason for its failure was that it did not change the more narrow concerns of budget formulation. PPBS was introduced in a fashion that ignored institutional loyalties and disregarded the realities of budget-making. It was imposed organizationally from the top-down, thus alienating mid- and lower-level managers who were then charged with the responsibility of implementing budget decisions in which they had had no



voice. Also alienated were elected officials who felt their vital roles and input were being shortchanged. On the Federal level "PPB was conceived almost exclusively from an executive perspective, as if Congress (does) not exist and that all it takes to make a budget is to review agency requests within an administrative setting."<sup>49</sup> At the state and local levels, PPBS was unable to command loyalty from administrative veterans who had witnessed the overselling of previous systems and were skeptical of the promised benefits of PPBS.<sup>50</sup> The attempt by many jurisdictions to convert to PPBS in a short time span increased the likelihood of failure and generated more skepticism.<sup>51</sup>

Further, the final form of the budget for presentation to elected officials did not change, often at the legislators' insistence. Appropriations continued to be awarded by object-of-expenditure. Congress took little note of the attempt to change the budget process and did not review the special PPB plans and analyses. Schick observes that "As a general rule, the closer a committee was to the appropriations process and to substantive power over spending, the less interest it showed in PPB."<sup>52</sup> State governments also found it more convenient to continue to use the line-item format for budget review purposes and this was reflected in their attitude toward PPBS. For example, "The Michigan legislature refused to examine a program budget submission; Pennsylvania's legislature was not enthralled

with the program format. . . ."53 On the local level, the part-time and poorly paid nature of the positions held by most politicians gave them little time or incentive to sort through program information that was often incomplete or superficial. Because accountability and control remain major concerns for governments of all levels, budget preparation has continued to focus on these items, often at the expense of exhibiting output data such as could be gathered from PPBS.

A final reason offered by analysts for the demise of PPBS is that the economic conditions upon which it was predicated simply no longer exist. PPBS was introduced during a time of fiscal abundance. Its five-year plans were to provide for the orderly, managed growth of programs and help determine which among many available alternatives should be advanced. By the early 1970's that abundance had been sapped by several costly ventures, including the Great Society programs and the Vietnam War.<sup>54</sup> Ways to curb government expenditures are sought now, and cut-back management has become the new slogan of budgeting.

#### Methods of Budgetary Decision-Making

Some analysts have pointed out that it is entirely possible to achieve all the goals of PPBS, incorporate excellent policy analysis into decision-making, yet still keep the traditional budget format intact.<sup>55</sup> This point is particularly relevant to our discussion since it brings out the very important distinction between decision-making and

budget classification schemes. There are essentially two recognized methods for budgetary decision-making, incrementalism and rationalism, although Etzioni posits a third approach which he calls "mixed-scanning."<sup>56</sup> These will be expanded upon in-depth when we later discuss their applicability to the zero-base budgeting process, but a basic understanding of the differences in these methods is necessary before further discussion.

Incremental decision-making has been described as a method of decision-making that stresses "process rather than substantive criteria. . . [in which] a 'good' decision is one which gains consensus rather than one which meets outside criteria of efficiency or effectiveness."<sup>57</sup> Consequently, the budget which is produced as a result of this type of decision-making contains only marginal changes from the status quo in programs or dollars. There are basically six primary requirements of this model, which Lindblom summarizes in the following manner:

1. Rather than attempting a comprehensive survey and evaluation of all alternatives, the decision-maker focuses only on those policies which differ incrementally from existing policies.
2. Only a relatively small number of policy alternatives are considered.
3. For each policy alternative, only a restricted number of "important" consequences are evaluated.
4. The problem confronting the decision-maker is continually redefined: Incrementalism allows for countless ends-means adjustments which, in effect, make the problem more manageable.

5. Thus, there is no new decision or "right" solution but a never-ending series of attacks on the issue at hand through serial analysis and evaluation.
6. As such, incremental decision-making is described as remedial, geared more to the alleviation of present concrete social imperfections than to the promotion of future social goals.<sup>58</sup>

There are many reasons for a jurisdiction to follow an incremental decision-making strategy. Among the foremost are a recognition of man's limited cognitive capacities and an attempt to reduce the scope and cost of information collection and computation.<sup>59</sup> Critics of incrementalism argue, among other things, that its lack of an overall analysis of planning and resource allocation makes it ill-equipped to limit growth and efficiently allocate a finite amount of resources.<sup>60</sup> Although its ostensibly simplistic methods are frequently the object of much disdain in both academic and governmental circles, many argue that incrementalism is in fact the way decisions are reached, and is probably the best method for reaching them.

In stark contrast to this is the rational method of decision-making. Also referred to as the comprehensive method of decision-making, rationalism assumes large-scale change from the status quo is possible and probably desirable. It stresses analytical methods for decision-making rather than the political methods associated with incrementalism. "Rationalism. . . posits an ideal situation in which the decision-maker defines a problem, sets a goal,

identifies alternative means of achieving it, and chooses the most advantageous among them."<sup>61</sup> Rationalism also systematically breaks decision-making down into six phases:

1. Establish a complete set of operational goals, with relative weights allocated to the different degrees to which each may be achieved;
2. Establish a complete inventory of other values and resources with relative weights;
3. Prepare a complete set of the alternative policies open to the policy maker;
4. Prepare a complete set of valid predictions of the cost and benefits of each alternative, including the extent to which each alternative will achieve the various operational goals, consume resources, and realize or impair other values;
5. Calculate the net expectations for each alternative by multiplying the probability of each benefit and cost for each alternative by the utility of each, and calculate the net benefit (or cost) in utility units;
6. Compare the net expectations and identify the alternative (or alternatives, if two or more are equally good) with the highest net expectations. <sup>62</sup>

Proponents of rationalism argue that the competing demands among groups for resources along with the paradoxical insistence by most of the public that government expenditures be curbed make it necessary to objectively analyze the merits of programs and appropriate funds according to merit and potential benefit to society. Opponents of rationalism argue that while its premise may be sound and that while the programs that could be produced under an ideal system of rational decision-making might be effective and efficient, it is not politically feasible or even desirable in a

democratic society. Nevertheless, it was in the spirit of harnessing government expenditures and improving efficiency and effectiveness that zero-base budgeting was adopted in the Federal government, and soon spread to state and local levels.

A third approach to decision-making is what Etzioni calls "mixed-scanning." This approach recognizes that daily business is probably conducted by making short-term incremental decisions, but proposes that the organization occasionally step back and review main alternatives so that "obvious" dangers can be removed and different lines of approach explored.<sup>63</sup> Incremental decisions for the organization would then be made within the context set by the fundamental decisions established through more comprehensive methods. This method assumes, as does rationalism, that organizations have the capacity to evaluate the results of different decision-making strategies and decide which is more effective and efficient. It further assumes that, once this is decided, the organization has the capacity as well as the desire to implement these decisions.

Having looked at various reform movements, their associated budgetary formats, and the decision-making strategies they employ, we can make some general observations about the prospects for meaningful reform. The first and most obvious reason for the emergence of reform movements is dissatisfaction on the part of the general public, either with the way government has dealt with general problems, such as unemployment or inflation, or with more

fundamental issues, such as the basic social order. Both of these factors were at issue when the Budgeting and Accounting Act of 1921 was passed, and various state and local reforms enacted due to increasing deficits, rising taxes, and flagrant corruption in government spending.<sup>64</sup> A recent study indicates that budgetary reform on the state level usually is initiated at the governor's and his executive administration's insistence. Changing the budgetary process affords the governor an opportunity to be associated with politically desirable movements such as a governmental efficiency campaign or reorganization effort. This appears to have been the case when Jimmy Carter decided to use zero-base budgeting in Georgia State government.<sup>65</sup> On the local level, officials are becoming more knowledgeable about budgeting issues, while realizing how little budgeting expertise they really have. Among the problems they must face, particularly at budget time, are the growth of suburban areas along with the decline of central cities, complex overlapping jurisdictions, and economies of scale.

The overlapping of jurisdictions means that tax collection is more complex and coordination of services is difficult. The existence of small government means that many services are provided without the advantage of economy of scale. The declining tax base for cities is putting extreme pressure on city budgets. The increased population of suburban areas has strained the expertise and capability of the suburban governments to cope with the challenge. They must develop budgeting expertise while dealing with massive program growth. <sup>66</sup>

The predictable outcome of this dilemma is to eagerly institute a new budgeting method that promises to solve most of the locality's fiscal and administrative problems. The

political desires of local officials, like those of governors', may also be the impetus for budgetary changes.

Even when the environment is ripe, however, for a change in budgeting methods, new formats do not retain their popularity for very long. Practitioners usually find themselves reverting to the traditional line-item format, perhaps with some additional information to convey an impression that planning and analysis were used in the decision-making. While the failure of a reform movement may come for any number of reasons, the two most widely discussed are (1) agency resistance which they meet because of the technical and mechanical problems--such as increased paperwork--that they cause an organization, and (2) the futility of attempting to make rational decisions on programs whose total costs and benefits cannot be specified or measured. At least one analyst believes that the more fundamental obstacle to reform is the incompatible objectives of most proposals. He cites, for example, "the effort to curb expenditure growth through the exercise of fiscal restraint and the desire to improve agency performance."<sup>67</sup> He goes on to outline the following relationship between these two objectives;

If budget reform is to be taken seriously by the various participants in the process, there must be some external reason that makes reform appealing to policy-makers. A deteriorating fiscal condition represents just such a condition, although the principal justification for budget reform from the standpoint of reformers is not fiscal stress. Rather, it is the desire to inject more rationality



into the decision-making process and thereby improve agency performance. While a worsening fiscal condition is necessary if current budget reforms are to be politically feasible, it is not, by itself, a sufficiently compelling reason for most advocates of budget reform. For them, improving agency performance is the primary objective. Thus, while it is politically necessary to link the objective of improving agency performance with a worsening fiscal climate (although the two are conceptually distinct), such a link ultimately means that either one or both objectives will not be accomplished. 58

With this framework in mind, we may turn our attention to the latest reform movement, zero-base budgeting. As discussed, the fiscal abundance of the 1960's turned into cries for cut-back management in the 1970's. President Johnson's Planning-Programming-Budgeting System had been discredited as a workable format, and President Nixon's Management-By-Objectives had never been seriously considered a viable way to prepare a budget. With deteriorating economic conditions and the election of Jimmy Carter to the Presidency, the environment was ripe for a new budgeting method. The beginning of a new administration in Washington was also the beginning of the zero-base budgeting movement throughout the country.

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CHAPTER III  
ZBB: THEORETICAL CONCEPTS, PROCEDURES,  
AND PROMISES

The demise of PPBS and the only marginal interest in Management-by-Objectives left the budgetary world of the early 1970's seemingly in a void. With no viable budgeting system intact, many officials found themselves piecing together what seemed to be the best of all the methods with which they were familiar. Yet conditions in the country, such as the "tax-payer's revolt," distrust of government officials, and the generally pervasive feeling that waste was rampant, made officials wish for a system they felt would be a good management tool as well as a politically acceptable way to budget program choices. Promising to do all this and more, zero-base budgeting made its debut at an opportune time. ZBB possessed all the simplicity of design that PPBS lacked, and it displayed a different economic philosophy than had previous systems. As one commentator observed "If PPB was a by-product of the political optimism of the early 1960's, ZBB has come to be perceived as a response to the politics of scarcity in the late 1970's." This chapter will examine some of the promises of ZBB, study the requirements of implementing a ZBB system, and analyze the benefits that supporters claim will accrue to the jurisdiction that uses zero-base for formulating its budget.

ZBB was introduced with all the prerequisites for success. The incoming President Carter had experimented with

it in his home state, was pleased with the results, and had made its institution at the federal level a campaign issue. The Office of Management and Budgeting eagerly embraced the concept, and an industry quickly sprang up explaining how to do ZBB and extolling the benefits to be gained by the agency using this new method. Although ZBB burst on the scene with the Carter Administration, it had a long and interesting gestation period. The seeds of many of its ideas were planted decades ago.

ZBB as a budgetary reform is a mixed bag that borrows features from several of its predecessor movements. To justify a budget from zero and compare benefits and costs of various programs is far from a new idea in governmental circles, as is apparent from our discussion thus far. E. Hilton Young, for example, advocated that budgets be justified from zero in an article published in 1924.<sup>2</sup> V. O. Key, Jr., in his classic article "Lack of a Budgetary Theory," lamented the absorption of energies in the mechanical foundations of budgeting that "diverted attention from the basic budgetary problem (on the expenditure side) namely; on what basis shall it be decided to allocate X dollars to activity A instead of activity B?"<sup>3</sup> Writing in 1940, Key declared that "the necessity for developing methods by which public officials may select objects of expenditure which will bring the greatest utility or return and most accurately achieve social aspirations becomes more pressing."<sup>4</sup> Key goes on to advocate placing alternatives in juxtaposition and weighing the relative merits of each.

Another writer who expresses ideas similar to Key's, but who goes on to design and advocate what sounds very much like the modern ZBB system is Verne B. Lewis. He presents a three part formula for budget analysis: weighing of relative values, incremental analysis, and relative effectiveness,<sup>5</sup> elements having a familiar ring to the student of ZBB. The weighing of relative values, or the guns versus butter question, can have no rational resolution since there is no economic way to determine whether a sum spent on missiles is more effective in the defense of a country than the same sum spent on relief of oppressive economic conditions of its people would be. On this issue then, he believes the analyst must look at opportunity or displacement costs and try to determine whether the "returns from an expenditure for any activity [are] more desirable and more necessary [than for] any alternative use of the funds . . . The costs must be judged in relation to the results and must be worth their costs in terms of alternative results that are foregone or displaced."<sup>6</sup> Incremental analysis was important, Lewis felt, because of the phenomenon of diminishing utility. Acquiring more and more units of anything will eventually reach a point where the units have less and less value. He further believed that incremental analysis was meaningful and necessary only at the margins, thus allowing the analyst to explore pay-off questions of increased or decreased expenditures.<sup>7</sup> Relative



effectiveness of programs can be determined, according to Lewis, if they serve a common denominator; in other words, alternative means can be evaluated in terms of the end they are designed to achieve.<sup>8</sup> To use two of Lewis' examples, guns and K-rations can be evaluated in terms of their effectiveness in fighting a war. On the smaller scale, once objectives for a construction company are established, the relative effectiveness of additional purchasing agents or engineers can be measured, although their jobs are quite different. Lewis notes that, particularly on the larger scale or in governmental bodies, the ultimate ends to be served are determined by a legislative body whose members provide the basis for economic calculation by the administrative agencies.<sup>9</sup>

Lewis goes on to advocate the preparation of alternative budgets, both slightly above and slightly below the base figure, by each administrator. In most cases, he believes, three alternative budgets would be sufficient. In each alternate, the preparer would indicate "the nature, quantity, and quality of services his agency could render the taxpayers if the amount of the basic budget were approved."<sup>10</sup> These would be reviewed and recommendations made throughout the heirarchical chain. Although the overall design of Lewis' proposal was modified, these are the basic features that latter became the backbone of the zero-base budgeting system of the 1970's.

The first government utilization of a budgeting system called zero-base was in the Department of Agriculture in 1962. Director Bell had suggested in August, 1961 that "we should in a real sense reconsider the basic funding for each program-justify from zero in the budgetary phase."<sup>11</sup> Accordingly, divisions in the Department of Agriculture were asked to prepare budgets reviewing programs from the ground up and giving consideration to the need for the work, the level at which it should be carried out, the benefits to be received, and the costs to be incurred. Although current ZBB procedures contain some of these elements, it should be stressed that this system was considerably different. By now, the failure of the ZBB system in the USDA is legendary. In 1963, Wildavsky and Mammann conducted an extensive study of the system and found that:

there was widespread agreement that the zero-base budget did not significantly affect outcomes... Few decisions could be attributed to the zero-base budget. An excess expenditure for files was identified and a \$100,000 reduction in an obsolete research program could be attributed to the zero-base budget, but in general very few changes were due to its use. <sup>12</sup>

Those who were "new" at their job did feel they were proceeding rationally and that their ideas were being taken into consideration. Not surprisingly, the ZBB system was not attempted again at the USDA.

The zero-base title appeared again in 1965 with the advent of PPB. One of the distinguishing characteristics of PPB was its defense and review of the total expenditure for

a program instead of the changes from its previous appropriations. The Bureau of the Budget did, however, recognize that in some cases agencies might suffer from limitations imposed by the availability of analytic staff resources or other circumstances, and they would not be able to provide a thorough defense of their programs. Nevertheless, they were asked to do the best they could.<sup>13</sup> Again, this form of ZBB was not the type that is currently in use.

ZBB resurfaced in Washington with the Carter Administration. The system presently in vogue had been developed at Texas Instruments, Inc. by Peter Pyhrr and first adopted in government by the State of Georgia in the preparation of the fiscal 1973 budget. The zero-base title itself is somewhat of a misnomer since it implies wiping the slate clean, starting from scratch, and rebuilding the budget for each program with no reference to the past as either a guide for or a constraint upon the future, a situation that most administrators recognize as unrealistic, and one that we have seen did not work well in previous budgetary formats. Unfortunately, this characterization of ZBB, while still in its governmental infancy, was reinforced by the political rhetoric of the day. Candidate Carter, the leading advocate of ZBB, told audiences that in Georgia budgets were stripped to zero and restarted from scratch, and that ZBB demanded total rejustification of everything from zero.<sup>14</sup> While these remarks may be regarded as merely the over-zealous selling of a campaign ideal, they did lead to confusion among practitioners as to how ZBB was in

fact supposed to be implemented. ZBB as it was conceived by Mr. Pyhrr, implemented in Georgia, and eventually used throughout the Federal government asks that different levels of effort (usually three) of performing an operation be identified: one minimum level which may be below the current level, then several incremental packages to bring the operation up to its current budget level and perhaps beyond.<sup>15</sup>

Two common threads run through most of the early literature on the potential benefits of ZBB: economy and efficiency. The economy would result from wiser program choices and better allocation of resources within those choices. The efficiency would be a product of better informed management and more integrated planning. The theoretical concept of ZBB is basically that managers must justify everything they want to do in a new budget year, show the results that can be expected from alternate levels of funding, and then have their program compete on an equal basis with all others for funding. Decision makers could then rationally determine how much they wanted to spend and/or the level of service they wanted and choose from the options presented to them. In actuality, the process of ZBB and its subsequent results is much more complicated and contains much finer elements than this oversimplified view.

To begin our analysis, a working definition of ZBB is in order. One finds that there are almost as many definitions of ZBB as there are commentators on the subject and, as in any new budgeting system, definitions are often

colored by the cautious but enthusiastic approach of the early observers. One of the most comprehensive is Peter Sarant's definition:

ZBB is a technique which complements and links the existing planning, budgeting, and review processes. It identifies alternative and efficient methods of utilizing resources in the effective attainment of selected benefits. It is a flexible management approach which provides a credible rationale for reallocating resources by focusing on the systematic review and justification of the funding and performance levels of current programs or activities. 16

Mr. Pyhrr, the founder of the modern day system, describes the ZBB approach as one that "requires each organization to evaluate and review all programs and activities (current as well as new) systematically; to review activities on a basis of output or performance as well as cost; to emphasize managerial decision making first, number-oriented budgets second; and to increase analysis."17 Still others have focused on the comprehensiveness of the ZBB approach, while some observers have chosen a somewhat more limited view. In describing ZBB in a state government (New Jersey) , Scheiring took an all-encompassing view and asserted that it was:

Attempting to force state decision makers to begin to combine planning, budgeting, and operational decision making into a systematic management process. It seeks to require managers to quantify both the anticipated costs and to provide projected performance measures on the outputs, effectiveness, and efficiency of the program. 18

A similar but somewhat more limited view is taken by Lee and Johnson, who classify ZBB as a variety of "what-if" approaches to budget requests. They assert that both the base and fixed-ceiling approaches to budgeting are deficient in that they offer no suggestions for program changes, whereas "what-if" approaches ask agencies to develop alternatives.

ZBB is a form of that approach with the "what-if" being the possible elimination of programs. Instead of assuming that a base exists, it asks what would happen if the program were discontinued. In its more thorough form, ZBB would provide quantitative measures of impacts.<sup>19</sup> Similar definitions of ZBB abound in the literature.

Although most of the accounts of the ZBB process assert that it challenges programs to prove their worthiness, it should be pointed out that the effectiveness and efficiency being challenged is often internal to the program rather than that of the program itself. The validity of basic services such as highway maintenance and crime prevention is not re-examined each year since their necessity has long been recognized as essential to the continued functioning of the community, and to do so would be redundant. ZBB requires, rather, that each department scrutinize its delivery of services to determine if a less costly and/or more efficient method might be feasible.

ZBB has been billed as both a budgeting and management tool that complements and allows the use of many current management techniques, and it does have multiple goals.

As one writer comprehensively described the new system:

The principal characteristics of zero-base budgeting are to:

- . Involve managers (who have discretion over direction) at all levels in the budget and operational process;
- . Justify the resource requirements for various levels of existing activities as well as for new activities;

- . Focus the justification on the evaluation of discrete programs, activities, or other function of each decision unit;
- . Establish for all managerial levels in an agency, objectives against which accomplishments can be identified and measured;
- . Assess alternative methods of accomplishing objectives;
- . Analyze the probable effects of different budget amounts of performance levels on the achievement of objectives;
- . Use "decision-packages" as the major tool for budgetary review, analysis, and decision-making; and,
- . Rank program, activity, funding levels, and re-allocate resources in order of priority. 20

To understand the implications, advantages, and disadvantages of ZZB-as well as to evaluate how it has worked in actuality-it is necessary to place its process in some logical order.

### ZZB Procedures

#### Prerequisites for Implementing a ZZB System

The steps of the ZZB process are simple: define and develop decision packages and systematically rank those packages. To make the system work, however, good background data and careful management during implementation at all stages is necessary. Among the general features needed in a governmental unit attempting to do ZZB are clearly defined goals and objectives, criteria for work-load measurement, a sophisticated accounting system, and a professional budget staff.<sup>21</sup>

Perhaps the most important prerequisite cited for successful use of ZBB at any level is enthusiastic and well-publicized support from the top management. This was the case

in the Federal government, where President Carter first ordered use of ZBB in White House procedures, then "participated at all stages-exhorting and selling the Cabinet, meeting with agency careerists assigned to ZBB implementation, and commenting upon ZBB progress reports."<sup>22</sup> Mr. Pyhrr also reinforces this prerequisite in his book, saying, "The one factor that can effectively kill the implementation of zero-base budgeting is lack of support from top management."<sup>23</sup> As is apparent from the fate of other budgetary reform movements, bureaucrats are notoriously adept at gauging the political climate and degree of commitment by their superiors, and acting accordingly.

Several state governments attempting to use ZBB have suffered the dilemma of enthusiastic support from some branches of government and nonchalance from others. In New Mexico, for example, the Legislative Finance Committee puts in considerable time and effort to produce an independent state budget recommendation. To strengthen their recommendations, they requested zero-base budgets from ten executive agencies in 1971, and more agencies were added to the list in 1972, 1973, and 1974. Budgets were accordingly prepared, but when the completed budget was presented to the Legislature as a whole, the effort was less than successful, partially because the part-time and transient nature of the Legislature left it little time for or interest in the subtleties of a new budget system. Indeed, little time was spent on debate of even major budget issues.<sup>24</sup>



A similar situation occurred when New Jersey implemented a ZBB system. It had been urged by the Governor as part of a policy of tax reform and frugality in spending, but also suffered problems from the Legislative branch:

The Legislature was not extensively involved or kept informed of the formulation of New Jersey's ZBB system. Little information was provided to Legislators on the system and its underlying concepts due to the short time period available. 25

Consequently, much of the work and recommendations that came out of the executive agencies through the ZBB process was not considered or not used by the Legislature.

In addition to support, having a well-developed philosophy for introducing ZBB appears to reduce apprehension and confusion over implementing a new approach. Several writers advocate as a first step disposing of mechanical questions such as to what extent ZBB will be used, what forms need to be developed, and at what spending level should units develop decision packages.<sup>26</sup> Then responsibilities for the ZBB process at each step should be fixed, and an orientation provided for departmental personnel who will be involved. This was done on the Federal level by placing OMB in charge of issuing instructions on the new system.<sup>27</sup> OMB then developed a philosophy of setting the framework, principles, and general rules, while having the agencies determine how to implement the procedures and determine operating instructions that were geared to individual program structures and accounting systems.<sup>28</sup> Liaison staff between OMB and the agencies was established to facilitate the resolution of problems and

generate enthusiasm. ZBB was implemented throughout the Federal government in one year, but some writers have suggested a scaled down version as perhaps being more desirable to proceed in an orderly fashion by working the "bugs" out of the system, but no ranking of packages or setting of priorities city-wide can be accomplished.<sup>29</sup>

Before the actual mechanics of putting together a budget can begin, an organization must determine what its decision units will be, or where actual budget preparation should occur. Usually, the most logical and least bureaucratically disruptive way to determine decision units is to follow the organization's already-established heirarchical lines, although in some cases this may not be feasible. If a reorganization or program change is slated, this will need to be taken into account. Guidance, particularly in cities, on selecting appropriate decision units may be obtained from budget staff. Other factors in the selection of a decision unit are that:

Units are not too low nor too high in the organization heirarchy to prevent meaningful review or analysis, (and)

That managers of those units make significant decisions on the amount of spending and the scope, direction, or quality of work to be performed.<sup>30</sup>

The organization will usually want to develop decision units compatible with existing budgetary classifications and accounting support systems.

The organization may also want to take into account time constraints. In large organizations whose lower level managers

are not accustomed to financial analysis and planning, the amount of time needed to develop and rank a large number of decision packages may be prohibitive.<sup>31</sup> When ZBB was first used in the Federal government, OMB assisted agencies frequently in identifying decision units so that units would not be identified which were too small, thus generating excessive paperwork, or so large that important considerations and full review of work performed were neglected.<sup>32</sup>

#### Preparation of Decision Packages

The decision package itself is the working document to be presented for budget decisions, and it contains a vast array of information. It focuses on such items as "identification (agency, appropriation, or fund account title, etc.), activity description (work or service performed, evaluations, cost/benefit results, etc.), resource requirements (funds and personnel), short-term objectives, and the impact on major objectives."<sup>33</sup> Since the formulation of decision packages is a major undertaking which comprehensively describes the organization's activities and desired funding levels, assistance from higher management is needed in the form of several planning assumptions, which should be received very early in the budget cycle. These assumptions should contain such items as changes in the size or function of the organization, alterations in type or size of clientele to be served, changes which may occur in the physical environment of the organization, and wage and salary adjustments. Pyhrr believes the formulation of planning assumptions also serves

some other very important functions, such as forcing top level management to do detailed planning and goal-setting and providing a uniform basis for viewing the coming year and estimating requirements.<sup>34</sup>

The subject of a decision package is not fixed. It may contain one item or several overlapping ones depending on its particular organizational level. Some possible subjects may be people, projects or programs, services received or provided, line item of expenditure, cost reductions, or capital expenditures. The important point for the manager, however, is the benefit to be received for the expenditure. He should be more interested in what people accomplish, rather than the fact that the package contains five people.<sup>35</sup> To aid in an understanding of how this translates into practice, the following example, formulated by a marketing manager on his regional sales forces is provided from Pyhrr's handbook Zero-Base Budgeting:

Decision Package--Sales Manager Region A and B  
(cost-\$45,000)

Description. Combine sales regions A and B into one region, eliminating manager A.

Benefits. Combining regions saves expenses of sales manager and secretary (\$40,000).

Consequences. Manager for combined region will have less time for market surveys and problem solving for smaller customers, but negative sales impact should be minimal due to sales leveling and expected economic slump for two of the largest customers in region A.

Alternatives

- . Maintain sales manager in region A for an additional \$40,000.
- . Combine sales regions A and C. 36

As with the subject matter, the content and physical layout of decision packages is completely variable and can be

changed to meet the needs of each organization. As a general guide, however, the package should not be more than two pages long, with an occasional three-page format needed in larger organizations. The smaller organization, whose managers will have an opportunity to personally present and discuss their packages, can use a one-page format. A longer form would contribute significantly to the paperwork problem, which is one of the major drawbacks of ZBB. The package itself, according to Pyhrr, should contain five major sections;

- . general information, containing such items as package name or title, rank of package, date of preparation, and organization identification;
- . description of purpose and program, with the purpose identifying how each activity relates to the organization as a whole and the program describing the methods, actions, and operations, and types of people and equipment recommended to perform the package;
- . costs, which may be displayed in terms of dollars, people, or time frame, or in any combination of these;
- . benefits, which may be either quantitative or qualitative; and,
- . alternatives, which may identify different ways of performing the activity, different levels of effort, and the consequences of not approving the package. 37

With physical descriptions and expectations of decision packages at hand, and with a breakdown of his current operation requirements, the manager can then prepare his set of budget requests. How many requests will be prepared, and at what funding level, varies from agency to agency, but the number identified is usually three or four. The manager is usually asked to identify a minimum level of performance, which should be less than the current year's operation, and below which it would not be feasible to continue the program because it could not fulfill its objectives.<sup>38</sup> The next level may be a reduced one that falls somewhere between the minimum and the

current levels. The current level of operation is usually identified with funding and performance level the same as the current year, provided there are no major policy changes. An improvement level may also be identified, as can be justified by need and circumstance.<sup>39</sup>

These funding levels have varied in the different governmental entities that have practiced ZBB. In the 1972 New Mexico experiment with ZBB, three levels were suggested: 70 percent of current budget, 95-100 percent of current budget, and separate units for each major request above current budget.<sup>40</sup> Because of increased state revenues, this was latter modified, and the below current level was eliminated while more attention was given to the improvement level requests. In Georgia, the minimum level was set at 85 percent of current year's operation, with additional packages for current level and improvements.<sup>41</sup> The New Jersey experiment was somewhat more elaborate. There agencies were asked to produce packages and list legislative statutes that would need to be repealed or amended at funding levels of 0 percent, 50 percent, 75 percent, 100 percent, 125 percent and above 125 percent funding of the current funding level.<sup>42</sup> OMB did not request specific percentage levels for packages from Federal agencies, but rather asked that in most cases four packages be prepared. They further recognized that in some cases there would be as few as one package or more than four.<sup>43</sup>

The following tables taken from the Orange County Annual Budget Reference Manual, offer an example of the subject matter, format, and information contained in a decision package. The package, prepared by the Traffic Engineering Department, contains two sets of information; a decision unit analysis and five levels of service alternatives. Level Four was eventually funded for this department.

#### Ranking Procedures

The ranking process has proven to be one of the most controversial and difficult parts of ZBB. It is the process by which expenditure levels and priorities are established by having managers throughout the organization identify packages in decreasing order of importance. It is then possible to assess the benefits to be gained at each level of expenditure and study the consequences of not approving the packages ranked below that level.<sup>44</sup> Ranking should occur first at the level at which the package was formulated, with review and consolidation of the rankings occurring as the packages move up in the hierarchy. At the higher management level:

The ranking shows the relative priority that discreet increments of services or other outputs have in relation to other increments of services or other outputs. The process is explicitly designed to allow higher level managers the opportunity to bring their broader perspectives to bear on program priorities by allowing them to rank the decision packages and make program trade-offs.<sup>45</sup>

Since each manager prepares at least several decision packages, the volume to be received in a large organization

## FY 1979-80 SERVICE LEVEL ANALYSIS

If this is current level, check here: ☐ 3/L No. 1 of 5  
 Department Traffic Engineering Division Unit Signals Prepared by J. Holley Date April 30, 1979

## 1. Describe Service Provided by this Service Level and Potential Impact on Other Organizational Units:

Provide on-duty team to respond to signal malfunctions 16 hours a day/ five days a week. All other malfunctions are to be handled by on-call personnel.

## 2. State Why This Service Level Should Be Funded:

This level is necessary to permit response to calls of traffic signal malfunctions.

## 3. Budget (by fund):

Name of Fund	Am. This 8/L	Cumulative Amount	% of FY 79-80 Budget
Transport. Trust	189,852	189,852	55%
TOTAL	189,852	189,852	55%

4. Positions in this Service Level			
Type	No. This Service Level	Cumulative Through This Service Level	% of 1979-80
Perm.	5	5	42%
CETA	0	0	0
Retainer	0	0	0
P/T	0	0	0
Intern	0	0	0
5. Workload/Performance Measures:			
Description	No. This S/L	Um. No. Through This S/L	Total FY 1979-80
Maint. Team Duty Hrs. (week)	80	80	120
Avg. Day Response Time	1.2 hrs	1.2 hrs	1.2 hrs
Avg. Night Response Time	1.2 hrs	1.2 hrs	1.2 hrs
Avg. Early A.M. Response Time	.7 hrs	.7 hrs	.3 hrs
New Signals Constructed	0	0	4
Signal Modernizations	0	0	0
Revised Signal Plans	0	0	0
Repair Loop Detectors	0	0	100

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## FY 1979-80 SERVICE LEVEL ANALYSIS

If this is current level, check here: ☒

Department Traffic Engineering Decision Unit Signals Prepared by J. Holley S/L No. 2 of 5  
 Date April 30, 1980

1. Describe Service Provided by This Service Level and Potential Impact on Other Organizational Units:  
 Provide detector repair and replacement, bench repair and construction capability (approximately 4 new signals per year).

2. State Why This Service Level Should Be Funded:  
 This level will permit the repair of vehicle loop detectors which will permit the traffic signals to continue to operate as traffic responsive signals. If this level were not funded, the traffic signals would not be able to operate in traffic responsive mode. This level will also permit maintenance of existing signals and provide construction capability for new signals.

3. Budget (by fund):

Name of Fund	Ant. This S/L Amount	Cumulative % of FY 79-80 Budget
Transport. Trust	112,683	302,335
TOTAL	112,683	302,335

4. Positions in This Service Level

Type	No. This Service Level	Cumulative Through This Service Level	% of 1979-80
Perm.	5	10	83%
CEFA	0	0	0
Retainer	0	0	0
P/T	0	0	0
Intern	0	0	0

5. Workload/Performance Measures:

Description	No. This S/L	Cum. No. Through This S/L	Total FY 1979-80
Maint. Team Duty Hrs. (week)	0	80	120
Avg. Day Response Time	0	1.2 hrs	1.2 hrs
Avg. Evening Response Time	0	.7 hrs	.7 hrs
Avg. Early Morning Response Time	0	.7 hrs	.7 hrs
New Signal Conversions	4	1	1
Signal Modernizations	1	0	0
Preventive Maint. Insp./Year	0	0	0
Repair Loop Detectors	100	100	100

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## FY 1979-80 SERVICE LEVEL ANALYSIS

S/L No. 3 of 5

Date: April 30, 1980

If this is current level, check here: ☒ x

Department Traffic Engineering

Decision Unit Signals

Prepared by J. Holey

1. Describe Service Provided by This Service Level and Potential Impact on Other Organizational Units:		2. Positions in this Service Level		
Type	No. This Service Level	Cumulative Through This Service Level	% of 1979-80	
Perm.	2	12	100%	
CERT	0	0	0	
Retainer	0	0	0	
P/T	0	0	0	
Intern	0	0	0	

3. State Why This Service Level Should Be Funded:	
This level provides for 24-hour response to traffic signal malfunctions five days a week. Without this level, the amount of overtime required to be handled by the "on-call" technician is unacceptable high.	

4. Budget (by fund):		
Name of Fund	Ant. This S/L	Cumulative Amount
Transport, Trust	9,110	311,645
TOTAL	9,110	311,645

5. Workload/Performance Measures:		Cum. Through This S/L		Total
Description	No. This S/L	Through This S/L		
Maint. Team Duty Mts. (week)	40	120		120
Avg. Response Time	0	1.2 hrs		1.2 hrs
Avg. Early A.M. Response Time	0	1.2 hrs		1.2 hrs
New Signals Constructed	0	4		4
Signal Modernizations	0	0		0
Signal Repairs/Year	0	0		0
Repair Loop Detectors	0	100		100

Point No. 2  
(Nov. 2/80)

## FY 1979-80 SERVICE LEVEL ANALYSIS

If this is current level, check here: ☒ S/L No. 4 of 5  
 Department Traffic Engineering Decision Unit Signals Prepared by J. Heley Date April 30, 1980

1. Description of Service Provided by This Service Level and Potential Impact on Other Organizational Units:		Positions in this Service Level		No. of 1979-80	
Type	Level	Through This Service Level	Level	Through This Service Level	No. of 1979-80
Perma.	2	14			1175
CETA	0	0			0
Retainer	0	0			0
P/T	0	0			0
Intern	0	0			0

2. State Why This Service Level Should Be Funded:		Workload/Performance Measures:	
Description	No. This S/L	Cum. No. Through This S/L	Total 1979-80
Maint. Team Only (week)	(.7 hrs)	0	120
Avg. Team Only Time	.7 hrs	0	120
Avg. Team Only Response Time	.7 hrs	0	120
Avg. Early A.M. Response Time	.3 hrs	0	120
New Signals Constructed	0	0	1
Preventive Maint. Insp./Tr.	50	50	100
Repair Loop Detectors	0	0	100

3. Budget (by fund):		Cumulative \$ of FY 79-80	
Name of Fund	Ant. This S/L Amount	Budget	1175
Transport. Trust	51,871	363,516	1175
TOTAL	51,871	363,516	1175

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## FY 1979-80 SERVICE LEVEL ANALYSIS

If this is current level, check here: ☒

Department Traffic Engineering

Decision Unit

Signals

Prepared by J. Holley

Date

April 30, 1980

S/L No. 5 of 5

## 1. DESCRIBE SERVICE PROVIDED BY THIS SERVICE LEVEL AND POTENTIAL IMPACT ON OTHER ORGANIZATIONAL UNITS.

Provide additional preventive maintenance.

## 2. State Why This Service Level Should Be Funded:

This level will permit the establishment of a complete preventive maintenance program. This would insure that the signal equipment is capable of performing as designed to the maximum extent. In addition, this would reduce the number of emergency calls to which the department must presently respond.

## 3. Budget (by fund):

Name of Fund	Net. This S/L Amount	Cumulative % of FY 79-80 Budget
Transport, Trust	34,854	1245
<b>TOTAL</b>	<b>34,854</b>	<b>1245</b>

Positions in this Service Level			Time, No.		
Type	No. This Position Through This Service Level	Cumulative Through This Service Level	No. This S/L	Through This S/L	Total FY 1979-80
Perm.	3	17	0	120	120
CETA	0	0	0	.3 hrs	.3 hrs
Retainer	0	0	0	.3 hrs	.3 hrs
P/T	0	0	0	4	4
Intern	0	0	0	1	1
Workload/Performance Measures:			Total		
Description			No. This S/L	Through This S/L	Total
Maint. Team Duty Mins. (week)			0	120	120
Avg. - Evening Response Time			0	.3 hrs	.3 hrs
Avg. - Early A.M. Response Time			0	.3 hrs	.3 hrs
Avg. Signals Constructed			0	4	4
Signals Inspected			0	1	1
Preventive Maint. Insp./Yr.			100	150	150
Repair Loop Detectors			0	100	100

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could easily become overwhelming. For this reason, consolidation of the packages as they move through the ranks is often recommended. The mid-level manager would review the package rankings of all his subordinates and consolidate them into a ranking to be forwarded to his superior. This cross-ranking of decision packages from several units may be along the lines of predetermined dollar levels or may show a rearrangement of the packages "by program mission or function giving more emphasis to base, or major mission components, and their associated support resources, and less to secondary functions or activities."<sup>46</sup> The manager at each level must decide what the strategy for his organization will be; for example, to increase funding of current programs, to concentrate on the start-up of new programs, or to give more attention to research and development.

Another technique for reducing the volume of packages that receive extensive scrutiny is to concentrate only on lower priority packages, and those at the margin just above and below the funding level of the current year. The ranking process theoretically works to establish priorities among the incremental levels of each decision package. Some packages may be requirements established by law and well within the expenditure levels, so an absolute ranking among them is not necessary. After determining that all appropriate alternatives have been explored and incorporated the manager should not spend further time deciding if package 4 is more important than package 5, but rather assure himself that both 4 and 5

are more important than package 15.47 It is the packages with a lower ranking that become more significant since management will ultimately make a decision on which of these will be funded. The organization may also want to establish a cutoff expenditure level, and have only the packages not included in the cutoff level reviewed in detail and ranked.<sup>48</sup> This level may be expressed as a percentage of current year's budget or in absolute dollars. Since the number of packages to be reviewed increases at each level, the cutoff expenditure level should also increase.

The cut-off expenditure level at the highest consolidation level can be set by taking the expenditure goals or the estimated funding level that will be approved by top management for that organizational unit, and then setting the cut-off far enough below this level for the desired tradeoffs among the lower organizational units whose packages are being ranked. Setting the cut-off level below the expected funding level also identifies the least important packages within that funding level, which top management may decide not to fund.<sup>49</sup>

The mechanics of the cut-off process is shown in the following diagram. It should be noted that cross-comparisons among essential activities are not made. Decision packages within each category are expressed as a percentage of that activity's current budget. (Please see top of page 68.)

This method has been popular in the Federal government, but some jurisdictions that have practiced ZZB have not employed either of these techniques as time saving strategies. The City of Garland, Texas, for example, was small enough that

Activity A		Activity B		Activity C	
package A1		package B1		package C1	
A2		B2	60%	C2	
A3	60%	B3		C3	60%
A4		B4		C4	
A5				C5	
				C6	
				C7	

Consolidated Ranking		
60% cutoff reviewed	Packages	A1 A2 A3
	Packages	B1 B2
	Packages	C1 C2 C3
Packages ranked below 60% cut- off ranked in order of im- portance	Packages	C4 C5 A4
	Packages	B3 A5 B4 C6 C7
		70%
		Packages ranked at the next consolida- tion level with a 70% cutoff.

(reproduced from Peter Pyhrr, Zero-Base Budgeting, p. 84.)

the City Manager reviewed all the decision packages, took the lower priority ones from each organization, and developed a consolidated ranking across all city organizations for discretionary packages.<sup>50</sup> Others who have tried this "grass roots" approach have expressed appreciation of the information and suggestions received, but have generally found it unsatisfactory since the time involved in reviewing numerous packages is prohibitive in the crucial budget cycle, and so much detail

can cause a loss of prespective in higher level managers.<sup>51</sup> Still other large organizations, such as the State of Georgia, have relied on management summaries. Decision packages were ranked to the program level in each agency, then the Budget Office prepared executive summaries based on this information for the Governor's review.<sup>52</sup>

Other mechanical problems to be resolved are those of who is to be involved in the ranking process and what procedures should be adopted for conducting ranking. Who should participate in the process may vary at each management level and should take into consideration such things as the style and communication linkages of the organization, the degree of expertise needed to make a decision, how much participation is required, and the options in selecting participants available to the organization.<sup>53</sup> At each level, the ranking may be done by an individual or a committee, depending on the above conditions, although committee reviews usually prove helpful when there are large numbers of packages with which a single manager is not intimately familiar.<sup>54</sup> The range of participants can be extensive, and may include knowledgable advocates of a program, unbiased staff analysts, and persons with managerial responsibilities. One commentator has suggested including client groups "who will be called upon to balance external demands and pressures on the organization and its set of programs and missions against internal assessments of program merit, impact and cost-effectiveness... within the limits of available resources."<sup>55</sup> In most cases,



however, committee membership adheres to the organizational structure with members being those managers whose packages are being ranked and the person responsible for that consolidation. One disadvantage of the committee system is the additional time that may be involved in reaching a decision, particularly if members are not familiar with some of the programs being discussed.

The procedures to be used in the ranking process also vary from organization to organization. The smaller group with close-knit management personnel may be able to share a general consensus on rankings, but larger organizations usually need a formalized set of procedures. With the policy statement of the organization's priorities at hand, the committee members can determine decision package evaluation criteria, then vote on the relative worth of each package. This continues until a final priority ranking is determined by top management. Some jurisdictions have used a computer to either explore various options among many agencies and then balance the funding against anticipated revenues,<sup>36</sup> or to create an optimal mix of funding for a wide variety of services after staff has identified the relevance and value of unmet needs and the cost/benefit considerations.<sup>57</sup>

### The Promise of ZBB

As are most new management systems, ZBB was perhaps initially oversold and offered as a panacea for all the ills of fiscal and administrative mismanagement. It promised to do about as many things as there were writers on the subject. As one commentator succinctly stated "The initial claims made on behalf of ZBB were impressive but exaggerated, with promises far exceeding the likelihood of performance."<sup>58</sup> [Nevertheless, jurisdictions that felt a budget squeeze brought on by political pressures or by the simple economic realities of decreased revenues and increased operating costs eagerly embraced the concept of ZBB with the hope that it could help cure their fiscal woes, or at least point out where the problems were.]

### ZBB As An Alternative To Traditional Budgeting Systems

[One popular idea among observers of the governmental process was that programs should be periodically reevaluated to see if they were still justifiable, and, if so, were they conforming to a prescribed set of measurable criteria.] If they were found lacking, a means should be identified whereby they could be amended or disposed of. A spirit of cut-back management prevailed. No longer was the continuation of a program to be taken for granted. ZBB appealed very much to subscribers to this view since "Taken literally, a zero-base budget would seem to imply no base at all. Each program would be on trial for its life every year."<sup>59</sup> Although it is not

necessarily what ZBB does, the concept of merit examination of every function caught on, and was lauded by advocates who claimed ZBB "requires public officials, in effect, to demonstrate why the functions of their programs should not be eliminated."<sup>60</sup> A tough stance on budgetary matters is almost always politically popular, and was becoming even more so at the time ZBB was introduced. Especially in the service and support activities, whose functions and objectives often seem complex or esoteric, ZBB promised to strip away the shroud of mystery surrounding a bureaucracy and subject budget requests to scrutiny and possible rejection.

The idea of pitting programs against each other in a budgetary struggle was planted some time ago. As early as 1961, Maurice Stans, Budget Director for President Eisenhower, told a United States Senate Subcommittee that "every item in a budget ought to be on trial for its life each year and matched against all other claimants to our resources."<sup>61</sup> And in 1976, with the advent of the Carter Administration, the Senate Committee on Governmental Operations endorsed a zero-base budgeting bill, stating in their report that:

It is necessary to challenge the traditional assumption of budgeting--because a program was funded last year, it deserves to be funded this year at the same or higher level.

The zero-base review concept. . . has a very different assumption as its foundation--that programs are not entitled to continued funding once they are created; rather, that a case must be made for continued funding.

Depending on how well that case is made, programs can be funded at the current level or at a lower or higher level; or revised to reflect the findings of the zero-base review.

If they fail to meet the test of reauthorization, they will be terminated. 62

As can be seen from the above quote, closely allied to the belief that a program should be on trial for its existence each year was a resurfacing of the periodic disenchantment with the traditional line-item budget. As was noted in previous chapters, the line-item budget has long been berated for a host of reasons, chief among them are the accusations that it is too simplistic, not program-oriented, and too vulnerable to gamesmanship by bureaucrats and legislators alike. The belief has been perpetuated that programs, once established, were then never scrutinized for efficiency or effectiveness, but that to do so would produce tremendous savings. This belief, along with several others, will be challenged in later chapters. Nevertheless, decision-makers, while giving lip-service to other budgetary techniques, found themselves continuing to practice line-item budgeting for its simple convenience. ZBB, however, promised to erase the assumptions implicit in line-item budgeting and replace them with a more sophisticated system. The idea of challenging governmental programs and having them justify each appropriation was again articulated in 1964 by Dr. Arthur Burns. In an address to the annual dinner meeting of the Tax Foundation on the "Control of Government Expenditures." Dr. Burns summarized his dissatisfaction with traditional systems and expressed the desire to see a new one implemented, although he expressed doubts about the difficulty of such a move:

Customarily, the officials in charge of an established program have to justify only the increase which they seek above last year's appropriation. In other words, what they are already spending is usually accepted as necessary without examination. Substantial savings could undoubtedly be realized if [it were required that] every agency. . . make a case for its entire appropriation request each year, just as if its programs were entirely new. Such budgeting procedure may be difficult to achieve, partly because it will add heavily to the burdens of budget making, and partly also because it will be resisted by those who fear that their pet programs would be jeopardized by a system that subjects every. . . activity to annual scrutiny of its costs and result.<sup>63</sup>

This idea was also the driving force behind Jimmy Carter's decision to use ZBB in Georgia. He recounted his state's ZBB experiment in a 1974 speech to the National Governor's Conference, and although ZBB was still in its infancy, he attributed many favorable changes to its use. He pronounced it a "dramatically different concept from that used by most governments, which concentrate almost totally on proposed new expenditures when considering a new budget."<sup>64</sup> He went on to declare that current budget expenditures get little attention, but that ZBB changed this by having every program, existing and proposed, vie for funding in a new budget on an equal basis.<sup>65</sup> This same concept of ZBB has been echoed by others who have applauded ZBB for its comprehensiveness of analysis. One of the aims of using a ZBB system in New Jersey, for example, was to focus attention on programs, subsequently weeding them out, that were based on statutes which served the needs of priorities or days long past:

Thus, whole programs that owe their continued existence to a legislative action taken long ago, which are continually refunded without question, now are to become questioned. . . ZBB charges an agency to develop

a defense of its budget that does not rely on its perimeter of constructed trenches of previous appropriations. 66

Yet another state, Montana, initiated the use of ZBB specifically because it offered an alternative to line-item budgeting, which Legislators were dissatisfied with since they felt it was too input-oriented and did not contain enough program analysis. At least one local jurisdiction, Orange County, Florida, also implemented ZBB out of at least partial dissatisfaction with traditional budgeting systems, which analysts described as too preoccupied with accounting detail and unclear about options and priorities. They charged that executives, legislators, and citizens were unlikely to understand links between dollars and services, and that ZBB could change that.68

ZBB was to serve notice to managers that their jobs of budget preparation would now be somewhat more difficult since they must start afresh each time rather than just modifying the previous year's budget and justifying only the increases. They were no longer to feel quite as complacent in their positions since all their programs would be subjected to the level of scrutiny usually reserved for new programs,69 nor could the individual manager maintain his treasured ambiguous position on the various programs under his supervision. The manager was charged with the responsibility of developing the rationale and determining the needed resources for performing services at alternate levels, and then through

the ranking process committing himself to a determination of which functions and levels of service he felt most important. All programs then, new or old, would be given equal opportunity to find their places in the budget, with continued existence guaranteed for no one. This new part to be played by managers, according to one commentator, would prove one of the greatest benefits to be obtained by switching from a traditional line-item budget system to ZBB. Rusten charges that governmental units have become the victims of internal stagnation with many of the people in administrative positions ill-equipped to manage complex and changing organizations. He believes that these administrators have worked most efficiently during periods of normal budget growth, when they could get by making dire predictions of gloom if their larger budget requests were not accepted. Consequently, budgets could be and were formed by simply adding 10 percent to 15 percent to the previous budget, then deciding how the excess would be allocated. So prevalent was this practice that one's success as an administrator came to be measured in terms of his ability to obtain his budget requests:

To have one's budget cut, or to fail to get one's "share" of the budget increase was unthinkable for most, and, frequently, was taken as a sign that an administrator was losing his power in an organization. Subordinates often sent their bosses forth to "do battle" for their budget, and his political power and prowess as an administrator were on the line if he did not get what they considered their "fair share". This all lead to a tendency to pad or inflate budgets, to

factor in these inefficiencies through tradition, and has led to people playing 'budget games' rather than focusing on doing a more efficient and effective job. 71

In fact, the anticipated ability of ZBB to reduce the gamemanship thought to be so rampant and so undesirable in traditional budgetary systems was yet another of its advantages, according to its inventor, Mr. Pyhrr. He charges that the traditional budget approach offers maximum opportunity for gamemanship because many discreet decisions are never explicitly identified and therefore get buried in the numbers. ZBB would remove the umbrella from current operations.72

Early enthusiasts of the new system expected that the switch from line-item to zero-base budgeting would allow yet another promise of ZBB to be fulfilled; the promise that budget reductions would be realized. In fact, many of the first legislators and executives to advocate the use of ZBB did so out of a dream that the same services could be produced at less cost through better budgeting.73 Providing decision makers with a rational way to reduce and control budget growth was one of the aims of ZBB when instituted in New Jersey.74 It was also one of the reasons Carter decided to use it in Georgia. As he optimistically told an audience, "Through tight budgeting, more services can be squeezed out of every tax dollar spent."75 The general feeling that agency budgets contained a great deal of "fat" which line-item budgeting did not identify was prevalent at the time that ZBB



was introduced. One commentator remarked that "an organization can save money by more easily identifying and eliminating bestial and outdated methods and programs. [Further] ZBB . . . allows for more effective identification of the lowest alternative methods for providing services."<sup>76</sup> Many of the state and local jurisdictions that chose to use ZBB did so out of a hope that it could cut budgets or limit their increases. A survey conducted in 1980 of municipal budget directors who had used ZBB revealed that, more than any other purpose, they had hoped it would provide them with a way to cut budgets and reallocate resources from lower to higher priority areas.<sup>77</sup> Its actual success in this area was mixed, as we shall explore in latter chapters.

#### ZBB as a Planning and Analysis Device

Several of the ways in which savings were to be realized was through the better, more extensive planning and through more objective performance and policy analysis. ZBB was advertised as the system that would combine planning, evaluation, and budgeting into a single system.<sup>78</sup> For ZBB to be successful, the planning function would need to start at the very beginning of the budget cycle, if not before, when top level managers would provide clear statements of the organization's goals and missions, determine if there were to be reorganizations or alterations in any part of the organization, and provide information on how salary and cost increases were to be handled. These are problems that are

often not addressed or are given only superficial attention until later in the budgeting cycle. According to the ZBB enthusiasts, the extensive planning would then filter on down through the organizational levels to affect the final budget in a positive manner. As one writer commented:

Zero-Base Budgeting is actually more properly called a planning system or a budget planning process. Properly used, ZBB leads an organization to carefully define, study, and select the best alternatives for each budget period based on the organization's mission, goals, and objectives. It is only after this process is completed that the final budget is put together in the institutional format based on the decisions made in the ZBB process. 79

It was in fact the improved planning function that partially attracted Jimmy Carter to the ZBB process. Upon assuming the office of Governor of Georgia, he told an audience, he identified planning and budgeting as the two best ways to produce economy and efficiency in government. Planning was important since, through it, "the groundwork can be laid for implementing new programs and expanding existing ones in ways that will avoid possible pitfalls and launch the programs directly towards their goal from the beginning."<sup>80</sup> Even more successful changes in the usual bureaucratic process could be attributed, he felt, to ZBB:

Besides placing priority on spending programs and revealing more information about actual governmental operations, zero-base budgeting achieves one more important action: it forces planning into levels of government where planning may never have existed. It forces all levels of government to find better ways of accomplishing their missions. It also gives a voice in governmental direction to the rank and file state employee who is responsible for delivering services. Besides making him a more integral part of

the planning process, it elevates his own sense of importance of his position and prompts him to work harder and deliver more efficient services. 81

One of the advantages of extensive planning in an organization was thought to be the more in-depth policy analysis and performance evaluation that accompanied it. A frequent, persistent complaint about public organizations is that they often lack clear purpose, thus the criteria for evaluating them remains obscure. It is often difficult to get agreement either within a large organization or among several on clear policy directions, such as priority objectives, actions needed to achieve those objectives, or how success will be measured. In some public organizations the objectives are ambiguous and may be simply to provide a specified service, such as putting more police on patrol. In many, however, "the program is intended to produce outcomes or impacts beyond the spending of money or delivery of services; for example, reduce crime, or improve citizens' sense of security."82 Administrators may often fall back on the argument that their programs cannot be measured in terms of cost/benefit analysis, but are nevertheless an essential, if not noble, service. A person engaging in cancer research, for example, may spend exorbitant sums and be able to demonstrate no identifiable progress towards cure of the disease. For that person to submit a properly prepared zero-base budget request, however, would require that he specify at least some systematic criteria by which his performance can be measured.

Program evaluation thus supplies what might otherwise be the missing link in zero-base budgeting, providing information on program costs, activities, and results--information that policymakers may need to understand the implications of budget choices. If evaluation identifies programs in which performance is far below policymakers' expectation, policymakers can respond by reducing or eliminating funding or by moving to strengthen the program through reassignment of personnel, addition of resources, or training and technical assistance.<sup>83</sup>

In order to produce evaluation criteria, the organization must focus more clearly on its objectives. This articulation of objectives along with specifications of the consequences of alternative policy choices enables the decision-maker to analyze the activities of organizations and adjust policies to fit changing needs.

Some jurisdictions have developed ZBB systems primarily because they felt the need for better performance/policy analysis. An experiment with ZBB was initiated in Montana partially because "Legislators [had] pointed to the need for more program analysis and wanted information that would help them evaluate agency performance. . . ."<sup>84</sup> Likewise, one of the four objectives for ZBB in Orange County, Florida was to develop a basis for monitoring performance.<sup>85</sup>

#### ZBB As An Educational Tool

A final promise of ZBB was that it would serve as an educational tool for managers. It would avoid one of the major pitfalls of PPBS, imposition from the top down, by having managers at the lowest feasible organizational level prepare decision-packages and then forward them up through the hierarchical chain. A dual purpose would be served by this strategy.

First, lower level managers, who may never have been intimately involved in budget preparation before, would become more aware of the cost effectiveness of specific activities under their jurisdictions. It hopefully would promote a sense of efficacy and encourage managers to be imaginative in their budgeting proposals. As their decision-packages were compared with others in the organization, they would become more sensitive to the problems of resource allocation and how their operation fit into the organization's overall mission and goals.<sup>86</sup>

Second, as the decision-packages were consolidated, intermediate and higher level managers would find it necessary to critically examine all the programs and program alternatives under their supervision, and commit themselves to an evaluation of which were most critical and/or beneficial. To make this determination, they would have to sharpen their sense of the organization's overall goals and where they fit in. As they participated in committee discussions and ranking sessions, the manager would hopefully dismiss his parochial interests and acquire a team spirit of working toward a common goal, although this might mean ranking decision-packages from other organizations higher than his own.<sup>87</sup>

When budget preparation was completed and ready for presentation to executive and legislative bodies, all program descriptions and options would be clearly displayed. The mayor or Council could leaf through the materials to see exactly what the functions of each part of any organization were and how they proposed to spend their funds.<sup>88</sup> Legislators

could be aware of what they were funding, and what return they could expect for dollars invested. Finally, the concerned citizen could see in advance exactly where programs would be increased or reduced, which services would be eliminated and which received favorable recommendations. He would thereby gain a clear understanding of the relationship between his tax dollar and services rendered.<sup>89</sup>

In short, ZBB was praised for a myriad of reasons, some of which had very little to do with the actual budgetary process. Perhaps these were most comprehensively described by Representative Charles H. Wilson of California, who, speaking before the House of Representatives, expressed his belief that ZBB in the Federal government would prove helpful in the following areas:

- . It may eliminate duplicative and overlapping programs.
- . An effective response to the problem of the erosion of public confidence in Government.
- . It would permit Congress to better establish its priorities and allocate scarce resources.
- . Efficiency in the legislative process might increase as ZBB would assist Congress to be more aware of what it is already doing.<sup>90</sup>

In summary, ZBB was recommended as a device for opening up the budgetary process. Previously obscure activities of organizations, funding sources, and actual expenditures would now be subjected to the intensive scrutiny usually reserved for new programs. No longer could funds be shifted from one program to another at the administrator's discretion. With ZBB, dollars would be tied to certain functions, with their

continuance dependent on cost-effectiveness. Overall objectives would be sharpened since multiple ranking consolidations at each stage revealed which programs and levels of expenditures were considered most crucial and therefore to be recommended in the final budget. By placing priorities on programs, resources could be allocated rationally and expeditiously. Hopefully taxpayer savings could be realized in the process.

Had ZBB been able to accomplish all these goals, it truly would have reformed the budget preparation process. From its very conception, however, ZBB ran into a host of political and administrative problems that fatally compromised its principles.

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#### CHAPTER IV IMPLEMENTATION PROBLEMS OF ZERO-BASE BUDGETING

The promises of zero-base budgeting were such that its concepts were received enthusiastically, at least by some administrators, and plans were made to implement it at the state and local levels as well as in the Federal government. The previous chapter has outlined some of the expectations surrounding the use of ZBB-expecations that early advocates of the system encouraged and expanded upon. Yet analysis of some jurisdictions that have used ZBB has shown overwhelmingly that the system was oversold and could not possibly offer all that was attributed to it. While some administrators report that genuine policy changes and financial reallocations were realized because of data supplied through the ZBB process,<sup>1</sup> others have criticized ZBB for a myriad of reasons. Among these are charges that ZBB creates a mountain of paperwork, does not affect non-discretionary expenditures which comprise large chunks of government budgets, that it ignores organizational dynamics and behavior, and that it disregards the realities of budget preparation and presentation. Additionally, this study will explore the charge that ZBB makes unrealistic assumptions about man's cognitive abilities to formulate and implement comprehensive, rational budgets. This chapter will survey some of the general feelings of displeasure that administrators using ZBB have expressed. It will additionally focus specifically on the complaint that administrators identify as the most frustrating, that the use

of ZBB has not produced much sought-after cost reductions. When one considers the non-discretionary funds in the budget and the format by which it is presented to and considered by legislators, ZBB becomes essentially an exercise in futility.

#### Problems Experienced With Zero-Base Budgeting

Despite its ostensibly simple procedures and its boast that rational decision-making could be employed, many of the organizations that have used a ZBB process have not been impressed with its performance. In a study of three Cabinet Departments and thirteen bureaus in the Federal government, for example, one researcher (DeBeer) found that "Most persons felt ZBB was not used to manage, nor was ZBB used to make final budget choices."<sup>2</sup> She goes on to say that "In terms of strengths and weaknesses, the majority of persons were generally negative toward the ZBB process as having any major strengths."<sup>3</sup> Similarly, a study of the Public Health Service shows that the final budget it submitted to OMB was hardly affected by the ZBB process, despite extensive activity and preparation in the agency. The study goes on to charge that many government agencies do not have integrated systems for planning, resource allocation, budgeting, and evaluation, and for them ZBB diminishes, rather than extends, their capacity to deal meaningfully with budgetary issues. It further points out that there is no real motivation for these agencies to participate in the ZBB process since the bulk of the budget is fixed, and ZBB serves no purpose.<sup>4</sup> This same study, along with another report, questions the advisability of using ZBB in government

at all, given its dubious success in its original home-private industry. Robert Anthony, in his article "Zero-Base Budgeting: A Useful Fraud?" points out that Peter Pyhrr, the founder of ZBB, had actually installed the system in only a small part of the company he worked for (Texas Instruments, Inc.) with less than 25 percent of annual expenditures affected. The judgement that the system was a success was entirely Mr. Pyhrr's, and was based on one year's experience.<sup>5</sup> In fact, a recent survey of fifty-four major corporate users found that ZBB was not widely regarded as a highly effective budgetary or resource allocation tool."<sup>6</sup>

Many states attempting to use ZBB have similarly suffered disenchantment with the system, and have often cited the costs, both in human and monetary terms, as outweighing the benefits. In his assessment of Montana's experiment with ZBB, Fitzpatrick asserts that "The benefits received from ZBB were marginal compared with the problems encountered in implementing the system. ZBB theory was fundamentally incompatible with actual conditions experienced in state government budgeting."<sup>7</sup> Still other states have found the design and implementation of a ZBB system to be a monumental task with any number of possibilities for failure. Among the problems experienced were the following:

- .Idaho did not provide sufficient time for training and technical assistance. Not only didn't the agencies have an adequate understanding of the process but they failed to comply competently with the zero-base requirements.

.In the State of New Jersey, ZBB met with staff resistance and the quality of information submitted was deficient due to their lack of fully understanding the basic system.

.In Tennessee, concern with the creating of large amounts of paperwork at lower levels, kept decision packages at the program level.

.Even in Georgia, the decision makers concentrated on a small number of issues and programs and "shortcutted" some recognized ZBB steps. <sup>9</sup>

ZBB at the local level is a relatively new experience, thus analysis in the literature is not as thorough or extensive. The initial reaction, however, seems to be one of disappointment tempered with cautious optimism that some good might still be realized for the time and effort invested. The one advantage of ZBB that appears to be cited most often is not its role as an improved budgeting system but its educational function-letting the City Manager, Mayor, and Council more readily see the inner-workings of an organization. Rather than outlining creative alternatives, however, department officials for the most part are more likely to emphasize the intricacies of their organization along with the dire necessity of continued and expanded funding. Perhaps because it is a new system, many officials are still developing their feelings toward ZBB. One group of researchers who surveyed twelve municipalities of various budget sizes received vague responses from the budget directors. Not one substantive example of cost savings was given from the officials, who nevertheless said they were tentatively accepting of ZBB as worth

the cost and effort.<sup>9</sup> Yet another surveyor, who concluded that ZBB was not a "magical elixir" for solving cities budgetary problems, found that, even among officials who were accepting of a ZBB system, over two-thirds experienced difficulties and wanted to see modifications in it, "The motivating factor behind the desire for modifications was the complexity, the paperwork, and the time required in the ZBB process."<sup>10</sup> The time factor has proven to be no small factor in the implementation of ZBB. Budget preparation time is usually short, with deadlines crucial. The analysis and evaluation required by ZBB added tremendously to the burdens of budget preparation. As one commentator concluded:

ZBB forced budget managers to ask all the right questions, but-unfortunately-at the wrong time. The time constraints allowed only superficial questions and took precious time away from preparing and reviewing what managers were legally pressed to do: submit and adopt a financial budget.<sup>11</sup>

Certainly, there is debate over just what the budget is supposed to accomplish for an organization, and consequently what it should contain. There are essentially two views of the role of the budget. One holds that the budget should be prepared after plans and resource allocation decisions have been made. The other view advocates that the budget be prepared simultaneously with fundamental planning and resource allocation decisions.<sup>12</sup> Since ZBB was billed as an instrument that comprehensively combined policy analysis, strategic choice and budget assembly, it attempted to fit with both views. This, according to some analysts, is a major weakness of ZBB since it pushes budgeting well beyond its reasonable limits.<sup>13</sup> They point out



that the budget is not and should not be viewed as a tool to accomplish everything, and that to hold such high expectations for it only leads to confusion and frustration. Furthermore, although crucial questions might be answered by parts of the ZBB process, these answers are often ignored, deemed academic, or put away for future consideration by the overloaded policy-maker.

A public body can hardly get into a debate about eliminating a rape crisis center during budget review session, and the alternative of contracting with a private firm to collect and dispose of residential refuse will not receive fair consideration by the budget officer while the numerous chores of compiling the budget remain undone. 14

This same theme of expecting too much from a process that must be completed quickly is echoed by others, along with the assertion that some things could be handled in a more thorough fashion at a time other than during budget preparation. Federal workers, for example, were particularly critical of analyzing alternatives during budget preparation and felt that could be better handled during the course of the year in a special studies manner.<sup>15</sup> Another report charges that ZBB was forced into areas where it should not have been and given responsibility for functions that are not the proper purview of a budget. The reason again is partially that of time constraints:

Of virtually all federal departments and agencies surveyed, one clearly definable theme was that the identification of issues, setting of goals and objectives, and consideration of alternatives should

not be part of ZBB. The reason is that there simply is not enough time to do all of this while the budget is being developed. 16

Beyond the generally pervasive feeling that there was just not enough time during the budget preparation to do all the things ZBB required, there were some specific charges of weaknesses levelled at the new system.

#### ZBB as a Means of Achieving Cost Reductions

One of the primary benefits to be derived from ZBB was the realization of cost reductions. In an era of cut-back management, this was a central concern of governments. ZBB promised to be an objective, efficient way to achieve savings. Unfortunately, this has not proven to be the case.

Examples abound in the literature of ZBB's failure in this respect. One commentator charges that cost-cutting expectations of ZBB are simply inappropriate since ZBB in itself cannot be the cause of government budget reductions or tax decreases,<sup>17</sup> while yet another points out that different political philosophies can determine how ZBB is used in a jurisdiction. "A conservative can use ZBB to restrain costs while a liberal can use it to expand budgets."<sup>18</sup> In some cases, the most a budget can hope to accomplish is to simply hold the line on expenditures, thus balancing somewhere between fiscal prudence and demands for more services. This apparently is what the federal budget of fiscal year 1979, the first to be totally prepared using ZBB, achieved. No real changes in programs were apparent. As one analyst observed:

The fiscal 1979 budget (unveiled on January 23, 1978) hardly terminates or curtails anything of significance, continues most spending at inflation-adjusted levels, and offers few program initiatives . . . Virtually every function, sub-function, and major program is funded at or slightly above its current service level. 19

Those involved in the budgeting process itself have also noted their disappointment with ZBB as a resource allocation tool. A survey of federal government workers revealed that an overwhelming 79 percent disagreed that ZBB assisted in achieving more efficient resource allocation.<sup>20</sup> Similar to this result, 73 percent of those surveyed did not feel that ZBB assisted in identifying inefficient, obsolete, overlapping and/or duplicative functions, while 83 percent felt that ZBB did not result in any functions being eliminated.<sup>21</sup>

States that have used ZBB have similarly not been able to realize cost reductions that could be attributed to the ZBB process. Analysts of the ZBB experiment in Montana charge that this is true in large part because ZBB theory is fundamentally incompatible with the actual conditions experienced in state government budgeting:

When first implemented, ZBB appeared to offer substantial opportunity to reallocate funds not only within agency budgets but also between agency budgets. ZBB theory suggests that by dividing programs into discrete decision units (activity packages) and developing a priority ranking of such units, it is possible to move funds from low to high priority activities. The opportunity to fund trade-offs never materialized in Montana's experience, and it appears that such a situation would be a rare occurrence within state government budgeting. 22

He comes to this conclusion for two main reasons: politics and uncontrollable expenditures, both to be discussed more fully later.

Administrators in Arizona who have used ZBB likewise have not endorsed the idea that it helps to plan for resource allocation. This reflects a general belief among the respondents to a survey that few changes occur as a result of ZBB and that creativity and the development of new ideas is not prompted.<sup>23</sup> ZBB was given credit for affecting major changes in the Georgia budget, and indeed evidence indicates that substantial changes did occur--but not those which politicians later came to recognize, chief among them, the ability to reduce budgets. Given the antiquated budgeting system which Georgia had previous to ZBB, one analyst bluntly asserts that ZBB probably was an improvement, as almost any change would have been.<sup>24</sup> But perceptions of ZBB as a method of actually reallocating resources is only lukewarm at best among the people who actually do budgeting:

In 1974, 13 heads of Georgia departments were interviewed, and only two went so far as to say that zero-base budgeting "may" have led to a reallocation of resources. . . None of the 32 budget analysts reported that the system involved a "large" shifting of financial resources and only seven said it caused "some" shifting; 21 said there was no apparent shifting, and 4 were uncertain. . . Zero-base budgeting had approximately zero impact." 25

While the above statement may sound extreme, facts do indeed substantiate that these pessimistic perceptions were correct. An in-depth study of Georgia's final budget through the 1975 Fiscal Year showed no apparent shift of resources that could be attributed to ZBB. In fact, "during the first three years of the zero-base budgeting system not a single instance could

be identified where a function was funded at a level less than the previous year."<sup>26</sup>

The potential of ZBB to affect cost reductions in local jurisdictions likewise appears bleak. A survey of the budget officials in 35 cities that used ZBB found that not one of them could cite an example of a cost savings realized as a result of ZBB.<sup>27</sup> Ironically, these officials found ZBB to be least effective in controlling the discretionary activities it is supposed to be best at, since it is more difficult to quantify and evaluate the output of staff and support services as opposed to operating departments.<sup>28</sup> Early theorists who wrote on the ZBB process spoke glowingly of its potential to trim fat and reduce budgets, and there are certainly some who maintain that cost savings have indeed resulted from using ZBB,<sup>29</sup> but their frequency in the literature is notably rare.

Why has ZBB been unable to deliver on its promise of cost reduction? Critics argue that this has not materialized primarily for three reasons: legislators continued to appropriate by line-item rather than on the basis of program information supplied by ZBB, budgets at all levels contain a great deal of "uncontrollable" expenditures which frequently consume the bulk of available revenues, and that when discretionary decisions could be made, ZBB failed to replace incremental allocation by program merit.

### ZBB as an Alternative to Line-Item Budgeting

No matter what budgeting system is used or what results it produces, public administrators and elected officials alike are almost unanimous in praising it as preferable to the line-item budget, although the line-item budget may be what they in actuality use. Reasons for this apparent disparity between theory and practice have been noted previously. Evidence indicates, however, that use of the traditional line-item budget has persisted despite the introduction of ZBB. Organizations may indeed adhere to the requirement to prepare various decision packages and identify alternative levels of services and costs, but in most instances a line-item object-of-expenditure budget continues to be the primary vehicle for exercising financial control. Budgetary reform, and ZBB is no exception, usually means a change in the planning procedures but not necessarily in the accounting and reporting procedures. A reform of both would have to occur to enable better management decisions to be made by comparing actual accomplishments to the budget.<sup>30</sup> This, however, does not often occur. Most governmental jurisdictions find themselves with accounting systems, auditing procedures, and, in the case of local units, reporting requirements for federally funded programs that are geared to the line-item budget. A full-scale conversion of these structures to fit ZBB would prove costly and time-consuming.<sup>31</sup>

As was the case with the PBB system, appropriations continued to be made on a line-item of expenditure basis. It may be argued that line-items are simpler and less time-consuming for the legislator to analyze, thus their continued insistence on this format. Others point out that the line-item is the most politically astute. At any rate, program information stands little chance of being translated into binding budget choices as long as line-item format is retained.

#### Non-Discretionary Funding in the Budget

Another reason, analysts point out, that ZBB failed to achieve cost reductions can be directly traced to the large amounts of non-discretionary funds that characterized most government budgets. These uncontrollable items take a massive chunk out of the federal budget each year. For example, in Fiscal Year 1977, over \$200 billion of the budget—including such items as social security and interest on the national debt—were given no special treatment under ZBB since they are permanent appropriations and become available without any current action by Congress.<sup>32</sup> Many other parts of the budget are equally difficult to control, and thus poor prospects for cost reduction campaigns:

almost three-quarters of the budget is officially classified by the Office of Management and Budget as "relatively uncontrollable under existing law". Without changes in basic legislation, these outlays will have to be made during fiscal 1977, even if a ZBB evaluation were to challenge their effectiveness. As a matter of fact, much of the remaining 25 percent of the budget also is not likely to be substantially impacted by ZBB because these funds go largely for

salaries and other costs of operating the programs of the federal government. Perhaps the only segment of the budget where ZBB alone might make an immediate and substantial difference is in federal grants to state and local governments, and one must question whether the budget process should be biased in favor of only this type of change. 33

This segment of the federal budget actually amounts to about 8.5 percent of the total.

A similarly small number of uncontrollable items characterize state budgets. To change many expenditures, state agencies would require statutory authority from their legislatures. Trade-offs cannot materialize when funds are mandated for specific purposes. Funds from hunting and fishing licenses, for example, are frequently earmarked to support the activities of Departments of Fish, Wildlife, and Parks, and cannot be transferred to other institutions or programs, no matter how much more deserving the ZBB analysis may deem them to be.<sup>34</sup> This reality has restricted the value of ZBB as a way to control budget growth or even as a comprehensive budgeting method, as can be seen from the following case:

the Georgia Constitution requires the General Assembly to appropriate to the Department of Transportation an amount for highway purposes not less than the previous years' receipts from the motor fuel tax. At least that portion of the agency's budget (approximately 84 percent of its state appropriation in the 1978 fiscal year) is protected from zero-base considerations. 35

The uncontrollable items in the budgets of state and local governments are readily influenced by the changing nature of federalism. The trend toward increased federal grants has been welcomed, but it has carried with it several stipulations:



most important for budgetary concerns; that funds be spent on particular programs, frequently that a percentage of matching funds be appropriated, and that certain operating conditions, which may impact upon the locality fiscally, be met. Despite their often stringent stipulations, federal grants are lucrative, and a bonus to the ailing state or local economy; consequently, officials are reluctant to take actions that would decrease the flow of federal dollars, even though the programs they are being spent on may not be the ones the ZBB process identifies as most worthy.

#### Incremental Outcomes

When items appear in the budget that are controllable, thus requiring specific funding choices, officials apparently continue to make marginal adjustments to the funding that was appropriated in the previous year. Thus incremental outcomes remain an enduring characteristic of the budget, pervasive throughout the government, despite repeated attempts by budgetary methods such as PPB and ZBB to replace them with total review and allocation by perceived merit. Since the term "incrementalism" will be used in several contexts, its definition must be clarified.

While the term incrementalism is generally used in budgeting literature to describe the government budgeting and appropriations processes, it can designate several separate phases of the decision-making process and may encompass any and all of the following:

- (1) a microprocess: the thought processes of an analyst who copes with complexity by accepting current funding levels as a base with known consequences and gauges the results that would occur by instituting a limited range of small changes in the base (successive-limited-comparisons) . . .
- (2) a macroprocess: the bargaining process by which partisans in the administrative-political system articulate and attempt to realize preferred changes in the existing base. Accomodation among many competing partisans, each bargaining from an existing base, results in a series of minor changes in existing arrangements, thus reinforcing the tendencies of the microprocess (partisan-mutual-adjustment) . . .
- (3) an outcome: the tendency of government budgets to increase steadily by relatively small amounts each year in existing spending categories. . . ."36

We shall concentrate here on incrementalism as an outcome, while leaving the microprocess and macroprocess for later discussion.

Observers of the budgetary process posit two basic decision rules that they claim form the basis of the stability inherent in the appropriations process: "that agencies most frequently arrive at a budget request by taking a fixed percentage of the previous year's appropriation [and] Congress arrives at a final figure by taking a fixed percentage cut in the agencies requests."<sup>37</sup> Not only are a limited number of alternatives considered, they also involve relatively small adjustments to an existing base. As an aid to budgetary calculations, incrementalism is stressed by Wildavsky as the most prevalent:

Budgeting is incremental, not comprehensive. The beginning of wisdom about an agency budget is that it is almost never actively reviewed as a whole every year in the sense of reconsidering the value of all existing programs as compared to all possible alternatives. Instead, it is based on last year's budget with special attention given to a narrow range of increases or decreases.

Thus, the men who make the budget are concerned with relatively small increments to an existing base. Their attention is focused on a small number of items over which the budgetary battle is fought.<sup>38</sup>

The incremental nature of agency strategies and budgetary outcomes has also been documented by other historical studies of budgeting. Richard Fenno's study of the House Appropriations Committee concluded that ". . . decisions are mainly incremental--whether measured by the relation of budget estimates to appropriations or by the relation of appropriations to last year's appropriation."<sup>39</sup> Likewise, Sharkansky analyzed the requests of 592 state agencies in 19 states and found that:

it is a combination of incrementalism and legislative dependence that shapes the budgets of major agencies. Both the governor and the legislature respond to the agencies' request for increments above the present expenditures, and their response serves to minimize budget growth.<sup>40</sup>

There has been considerable discussion in the literature about what constitutes an increment and at what point budgetary outcomes become nonincremental. Wildavsky believes that in the final analysis, "it is the regularity or irregularity of the changes in size that matter, not the absolute amounts of the changes themselves."<sup>41</sup> Under this concept, an agency could receive a fifty percent increase--certainly one that is substantial in size and impact on agency operations--and it still be considered incremental in nature if it is received consistently over the years. Agencies, to insure that they do in fact receive what they consider to be their fair share of available appropriations, employ a number of tactics. These tactics

include, among others, the cultivation of congenial and supportive relations with clientele groups and key Congressmen, the careful calculation of how much an increase in funds is credible, and research into the most effective means of presentation for the budget request. Although tactics may vary from agency to agency, the ultimate goal appears to be one of maximizing stability and predictability in both the internal functioning of the agency and in its relationships with others. One of the best ways, apparently, to maintain this equilibrium is for an agency to request and a governing body to grant incremental changes from an existing base.

This orientation toward budget formulation has long been deemed the most prevalent reason for waste and "fat" in agency budgets, and was one of the characteristics that ZBB sought to change. Yet according to Schick's assessment of the first attempts at ZBB in the Federal government, "the first president to promise a zero-base budget has delivered the most incremental financial statement since Wildavsky canonized that form of budget-making more than a dozen years ago."<sup>42</sup> This observation appears to be an accurate one when experiences of analysts who have used ZBB are analyzed. Concrete evidence indicates that while ZBB might have resulted in a different budget format at the department level, in many cases it failed to alter the form of the final budget that was submitted to legislative bodies, nor did it significantly change how they or departmental officials made budget decisions. One analyst offers the ease

with which ZBB was installed in government as its most remarkable success, and this, he says, is due to the fact that ZBB changed very little of the substantive ways budgets are put together. He submits that "if ZBB had been such an abrupt departure, there would have been 'blood in the streets'."<sup>43</sup> Other commentators have also noted that ZBB offers only superficial differences in budgetary practices, but nothing of substance. In his indictment of ZBB, Schick asserts that:

ZBB was introduced quickly and painlessly because it did not alter either the "rules of evidence" for budgeting or the structure for budget choices. There is not a single bit of budgetary data that is unique to ZBB.<sup>44</sup>

This apparently was the case in the federal government where a number of budget officials who were involved in the ZBB process to admitted to interviewers that they did not use ZBB as the sole basis to develop and review their budgets because they had to prepare an incremental budget for Congress anyway.<sup>45</sup> Even those who did make an honest attempt at using ZBB found that their final product was an incremental budget. One official noted that "When you're through with zero-base budgeting, you have the best incremental budgeting system I've ever seen."<sup>46</sup> As has been noted previously, the zero-base title itself is somewhat of a misnomer since in actuality a minimum level, such as 80 percent of current expenditure, is set, and incremental percentages above that are examined--which still leads back to the fact that incremental analysis is being conducted.

Incrementalism describes not only a budgetary outcome, but also a method of decision-making--one that has been widely criticized by scholars and practioners alike. ZBB sought specifically to replace incremental decision-making with comprehensive methods in an attempt to establish the worthiness of programs and subsequently relate budget choices to that analysis. Its performance in this area is the subject of a later chapter.

Since some discretionary funds do exist in the budget, the diligent legislator and the optimistic administrator may well be eager to undertake doing a zero-base budget, hoping that sheer weight of analysis will advance his cause. Instead, he frequently finds the sheer weight of the paperwork involved dampens his enthusiasm. This complaint against ZBB is explored in the next chapter.

#### Notes

1. See, for example, Cleaveland and Bennett, "Florida County's ZBB Process Yields More Than A Budget," National Civic Review, Volume 68, 1979.
2. Anne M. DeBeer, "The Attitudes, Opinions, and Practices of Federal Government Workers On The Zero-Base Budgeting Process," The Government Accountant's Journal, Volume 29, 1980, p. 17.
3. DeBeer, op. cit., p. 19.
4. Regina E. Herzlinger, "Zero-Base Budgeting In The Federal Government: A Case Study," Sloan Management Review, Volume 20, 1979, pp. 8-14.
5. Robert N. Anthony, "Zero-Base Budgeting: A Useful Fraud?" The Government Accountant's Journal, Volume 26, 1977, p. 7.
6. Herzlinger, op. cit., p. 4.
7. John S. Fitzpatrick, "Montana's Experiment With Zero-Base Budgeting," State Government, Volume 1, 1980, p. 12.

8. Peter C. Sarant, Zero-Base Budgeting in the Public Sector: A Pragmatic Approach, Addison-Wesley Publishing Company, Reading, Mass., 1978, p. 12.
9. Scott S. Cowen and Burton V. Dean, "The Use of Zero-Base Budgeting in Local Government: Some Observations," Interfaces, Volume 9, 1979, p. 66.
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11. Lewis F. McLain, Jr., "How Strategic Planning Can Help Put Budgeting In Perspective," Governmental Finance, Volume 10, 1981, p. 36.
12. Herzlinger, op. cit., p. 4.
13. McLain, op. cit., p. 36.
14. Ibid, p. 37.
15. DeBeer, op. cit., p. 37.
16. Frank D. Draper and Bernard T. Pitsvada, "ZBB--Looking Back After Ten Years," Public Administration Review, Volume 41, 1981, p. 78.
17. Frederick W. Harvey, "The Zero-Base Budgeting Misconception," Management Review, Volume 67, 1978, p. 34.
18. John A. Wothely and William G. Ludwin, eds., Zero-Base Budgeting In State And Local Government: Current Experiences and Cases, Praeger Publishers, New York, New York, 1979, p. 99.
19. Allen Schick, "The Road From ZBB," Public Administration Review, Volume 38, 1978, p. 177.
20. DeBeer, op. cit., p. 19.
21. Ibid.
22. Fitzpatrick, op. cit., p. 12.
23. Bill N. Schwartz, "Zero-Base Budgeting In Arizona State Government," The Government Accountant's Journal, Volume 29, 1981, p. 43.
24. Anthony, op. cit., p. 9.
25. Ibid.
26. Thomas P. Lauth, "Zero-Base Budgeting In Georgia State Government: Myth And Reality," Public Administration Review, Volume 38, 1978, p. 425.
27. Cowen and Dean, op. cit., p. 66.
28. Ibid, p. 64.

29. James R. Cleaveland and Jean C. Bennett, "Florida County's ZBB Process Yields More Than A Budget," National Civic Review, Volume 68, 1979, p. 617.
30. Kenneth S. Caldwell, "The Accounting Aspects of Budgetary Reform: Can We Have Meaningful Reform Without Significant Changes In Traditional Accounting Practices?" Governmental Finance, Volume 7, 1978, p. 10.
31. John S. Fitzpatrick, "Montana's Experiment With Zero-Base Budgeting," State Government, Volume 53, 1980, p. 13.
32. Joel Havemann, "The Budget--A Tax Cut, Little Else," National Journal, Volume 10, 1978, p. 124.
33. Logan M. Cheek, Zero-Base Budgeting Comes Of Age, Amacom, New York, New York, 1977, Appendix C, p. 265.
34. Fitzpatrick, op. cit., p. 13.
35. Thomas P. Lauth, "Zero-Base Budgeting in Georgia State Government: Myth And Reality," Public Administration Review, Volume 38, 1978, p. 426.
36. James E. Skok, "Budgetary Politics and Decision-Making," Administration and Society, Volume 11, 1980, pp. 445-446.
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43. Frank D. Draper and Bernard T. Pitsvada, "ZBB--Looking Back After Ten Years," Public Administration Review, Volume 41, 1981, pp. 78-79.
44. Schick, op. cit., p. 178.
45. Anne M. DeBeer, "The Attitudes, Opinions and Practices of Federal Government Workers on the Zero-Base Budgeting Process," The Government Accountant's Journal, Volume 29, 1980, p. 18.
46. Havemann, op. cit., p. 129.



## CHAPTER V DROWNING IN PAPERWORK

The very basis of ZBB is the identification of several alternative ways of accomplishing each program activity and the consequences of choosing either way. This has led to one of the most prevalent criticisms of ZBB; that it leads to a mountain of paperwork. This chapter will explore some of the paperwork problems encountered by an agency, including the difficulty of defining package content and establishing ranking schemes, as well as dealing with overwhelming volume. Additionally, the technical problems involved in measuring performance and clarifying objectives as well as the behavioral implications of doing so for the organization will be analyzed.

The initial paperwork problem is one of administrators trying to decipher manuals, understand the system they are attempting to implement, and devise forms that will display all the critical information yet be simple enough to be usable. The latter problem becomes one of trying to absorb all the information that is returned, or at least understand it well enough to make informed decisions. Line personnel similarly face the dilemma of learning what is expected of them, then preparing the requested information, hopefully with more than cursory analysis, within the given time constraints. One commentator succinctly remarked that:

There is great skepticism that zero-base budgeting can be implemented effectively within the ever present constraints on the time of government managers, policy-makers, and their staffs. Those who know government insist that it doesn't make sense to attempt to review existing operations from "the ground up"--that too much time would be required from program managers and budget analysts--and that it would be impossible for top policy-makers to effectively review the large number of decision packages for a government of any size. The conventional wisdom is that zero-base budgeting will create a massive flow of paper that will saturate the process.<sup>1</sup>

This has in fact proved to be the case in most of the literature reviewed. While there are some who contend that federal agencies have adapted quite well to the increased paperwork (approximately double the amount by most estimates), and that state and local jurisdictions have not suffered on this account,<sup>2</sup> others believe that it has been a noticeable burden on the efficient preparation of a budget. In a survey of federal government workers, "87 percent. . . agreed that ZBB resulted in too much paperwork which hindered the process."<sup>3</sup> Likewise, Herzlinger's study of ZBB in the Public Health Service reveals that top management did not adequately prepare for the additional paperwork by increasing staff, thereby further frustrating the analysts' attempts to do a conscientious job. "The lack of manpower. . . resulted in a cursory and superficial analysis by people suddenly overwhelmed by a mountain of paperwork."<sup>4</sup> It would appear that in some cases ZBB defeated its purpose by offering too many options.

When the concept of zero-base budgeting was first introduced in federal government, the Consumer Product Safety

Commission (CPSC) was chosen as a pilot project agency by members of Congress who were interested in the ZBB process. Accordingly, the CPSC prepared a zero-base budget for FY 1978 for a review by a subcommittee of the House Committee on Appropriations. A myriad of problems were cited, both with the effort and the process, but the most prevalent was the avalanche of paperwork. I was informed by a staff assistant of the committee that the CPSC budget justification leaped from 74 pages under the incremental approach to 368 pages using the ZBB method. The amount of human resources needed to review that amount of material is prohibitive, and a remedy to the problem has not been forthcoming. As I was told, "Despite considerable effort, there is no way [his emphasis] to simplify or summarize the basic ZBB materials in such a manner that they can be dealt with quickly. Too much detail rapidly becomes counterproductive in the legislative process. Great amounts of information tend to become useless." He concluded that, for this reason alone, ZBB would become a "footnote in budgeting history."

Some states attempting to use ZBB have encountered a similar problem with paperwork. Montana, for example, abandoned the use of ZBB for this very reason, with executive and legislative branches alike expressing disappointment over its performance:

ZBB did not prove to be an effective budgeting tool despite a reasonably conscientious implementation effort

spanning four years and two legislative sessions. The functional problems of simply sorting through the massive amount of paperwork generated by the ZBB format . . . inhibited rather than stimulated budget analysis.<sup>5</sup>

The Arizona State Department of Transportation implemented a ZBB system in FY 1978 at the urging of its Chief Budget Officer. A survey before the experiment began revealed both administrators and other employees were fairly neutral about ZBB, while a survey afterwards found administrators in particular experienced a negative reaction to the process. The one thing everyone agreed strongly on, however, was that ZBB increased the amount of time spent on budgeting--with disappointing results.<sup>6</sup>

Even in its governmental home state, Georgia, over 11,000 decision packages were generated. One commentator points out that even if the Governor set aside four hours a day for two months, he could only spend about a minute on each package, not even enough time to read it not to mention make an analysis of its merits.<sup>7</sup> To delegate the job to others would compromise one of the purposes of ZBB--comparing priorities. When one realizes that the Department of Defense budget is 30 times that of the State of Georgia, the paperwork problems become no small consideration. Robert Anthony charges that not only was the amount of paperwork generated in Georgia monumental, it was for the most part useless:

A tremendous amount of useless paperwork is involved in zero-base budgeting. The example that is most frequently used in describing the process is a decision package for an \$80,000 increment to the budget of an

air quality laboratory [3/100,00 of the Georgia budget]. The form used to justify this, and all other increments, contains 15 items of information, including the answer to such questions as: What are the consequences of not approving the package? and What alternative ways are there of doing this work? Experienced budget analysts know that the answer to the first question, stated in various ways, invariably is that the consequences of not approving the package are too terrible to contemplate, and the answer to the second question is that all alternatives cost more money, don't do the job as well, or both. It is a waste of time and paper to have such answers restated in 11,000 different ways.<sup>8</sup> This is information saturation at its worst.

He goes on to say that the worthwhileness of programs and the "fat" in them cannot be determined by words on a two-page format.<sup>9</sup>

Neither have local jurisdictions escaped the paperwork problem involved in ZBB. One survey of municipalities lists the time and paperwork required as the most frequently cited, 9 out of 12 responses, problem with ZBB.<sup>10</sup> In another study of Budget Directors of thirty-five municipalities that had used ZBB "The respondents noted in answers to open-ended questions that the time and paperwork required for ZBB was the biggest problem."<sup>11</sup> Not only is the increased paperwork a problem, but also the form it takes may become a factor inhibiting successful implementation of ZBB. As with any new system, officials must learn different procedures and master new forms, which may become too cumbersome if they are not kept simple. "Administrators may . . . spend so much time reading manuals and trying to understand the system that they lose sight of their main tasks."<sup>12</sup> Completing the ZBB process under such conditions can become an end in itself.

### Package Content and Ranking Problems

ZBB requires that agencies identify decision-units, who will then prepare packages that display information on major objectives, alternatives, measures of accomplishment, activity descriptions, minimum levels, and short-term objectives, on a form of a maximum two-page limit. The packages are then to be ranked in order of priority throughout the organization, and, theoretically, throughout the entire governmental jurisdiction. This simple-sounding process, however, has apparently met with a high degree of staff resistance and sometimes blatant noncompliance, with problems concentrated around the information to be included in the decision-package and the ranking process. The identification of the decision-units themselves has not appeared to be a problem, since the guidelines on the subject have been quite permissive in all jurisdictions. Agencies are usually told that packages should be developed at a level that is not low enough to confuse the manager, who may have no previous knowledge of budgeting concerns, but not so high that important considerations and meaningful review are lost. Following these ambiguous guidelines, most agencies have tended to simply follow existing organizational structures.<sup>13</sup> The content of decision packages, however, has caused major problems for the organization attempting to do ZBB, primarily in terms of deciding funding levels and determining what information to include.

Organizations were asked to determine a minimum funding level beyond which the missions and goals of the organization could not be realized. This has proven for many to be an unrealistic expectation since "It [is] simply not reasonable to expect an agency to routinely furnish information that might result in a lower appropriation--no matter what the justification might be."<sup>14</sup> In New Mexico, analysts found that many agency personnel felt threatened by the 70 percent funding level they were asked to identify. "There is a feeling that to even submit a cost figure on such a reduced operation encourages a legislature to reduce an appropriation."<sup>15</sup> Similarly, a survey of thirty-nine municipalities found that respondents gave the highest mean severity rank (average ranking given to a problem by all respondents) to the problem of "the departments' and agencies' reluctance to suggest decision-packages that reflected funding levels less than their present appropriation."<sup>16</sup> Likewise, some departments in Wilmington, Delaware resisted proposing reduced levels since they misconstrued these levels as being recommendations to operate at that level.<sup>17</sup> Departments in the federal government have also experienced difficulties with supplying information that would establish a minimum level below current funding. A survey of federal workers found that, next to the paperwork problem, the most commonly mentioned weakness of ZBB was the "unrealistic and arbitrary nature of the minimum level decision-package."<sup>18</sup>

Again, many people felt that risk was involved in documenting a minimum level since the information would always be there for an OMB official to act on at some later date.<sup>19</sup> Consequently an analysis of 113 decision units revealed that only 59 percent prepared packages with a minimum level that requested resources below the currently funded level,<sup>20</sup> thereby failing to meet a fundamental requirement of ZBB theory.

In other cases, officials argued that setting minimum levels was simply unrealistic. Research programs, for example, may take years and have long-term fiscal commitments, thus dollar levels of previous years are not an accurate measure of worthiness. They further point out that establishing arbitrary percentage levels across an organization ignores the fact that it may be too high for low priority programs and too low for high priority programs.<sup>21</sup>

Other analysts have charged that the quality of information displayed on some decision-packages has been poorer than in previous years, with no attempt at serious analysis of programs evident.<sup>22</sup> Packages tend more to include information on the consequences of not approving them than on the benefits to be gained from funding the packages. This is at least partially due to the brevity of the forms to be used. The two-page limit, according to one commentator, signalled agencies that they need not include much analytic content in their decision-packages. "Bereft of program and performance data associated with alternate levels of expenditures, the decision-



packages merely indicated that spending can be set at various levels."<sup>23</sup> Thus one finds a vicious circle at work; to improve quality of information would require increased paperwork, whose volume in turn could not be adequately or critically analyzed.

Perhaps the most controversial aspect of ZBB is the ranking process. As a method for setting organizational priorities, it has two major facets—a mechanistic process and a policy framework. As we have noted, a tremendous number of packages can be generated, thus a scheme must be devised for dealing with the volume. To comply with ZBB theory, one chief executive would need to review all the decision-packages, yet those who have tried this "grass roots" approach have found it too taxing mentally and too time-consuming.<sup>24</sup> It is clearly a problem in the Federal government, where the 1979 ZBB submissions of 56 agencies resulted in approximately 6,400 decision-units and 21,000 decision-packages. While internal rankings may be possible in an agency, an overall comparison is not feasible. Behavioral research indicates that the maximum number of items that can be ranked is about thirty.<sup>25</sup> As an alternative, consolidation of packages or preparation of executive summaries has been proposed, either of which compromised the comparing of priorities, and, in some cases, can defeat the whole process. The Public Health Service, in an attempt at simplicity, consolidated 108 decision-packages into

three--Heart, Lung, and Blood. The Heart package alone "included hundreds of millions of dollars and ranged from complex engineering experiments in creating artificial hearts to subtle biochemistry of plasmas."<sup>26</sup> The reviewer went on to comment that "It is doubtful that a one-page description of all these programs would be of any purpose."<sup>27</sup> Other agencies have invested considerable time and effort to establish a ranking procedure. As one commentator noted:

Unfortunately, more ingenuity has been invested in ranking schemes than in any other ZBB activity. Psychological scaling, weighted voting rules, survey techniques, delphi, just about every voting method devised for human use has been deployed in the service of ZBB. But ranking itself makes little sense, though it affords a wonderful opportunity to wrap budget outcomes in the pseudo objectivity of numbers. It conveys an appearance of rationality, but it is much less rational than budgetary practices in which priorities are veiled. Under ranking requirements, agencies are compelled to establish preferences independent of sure knowledge as to the funds that will be forthcoming.<sup>28</sup>

It is this establishment of preferences that leads to the policy choices inherent in the ranking process and has also caused problems in organizations attempting to use ZBB. Organizations are reluctant to say one activity is more important than another for several reasons: fear of reduced appropriations may introduce morale problems, some parts of the organization might operate on earmarked funds--such as federal grants--which are not slated for reduction, thus stating priorities is a useless exercise which only brings internal tension. Still others fear they will antagonize

the supporters of lower ranked programs. To circumvent the possibility of a lower appropriation, organizations may adopt a "stalking horse" approach, which consists of manipulating priority rankings so that popular items are ranked lower than items that otherwise would have little chance of funding.<sup>29</sup> The assumption is that popular outcry and legislative astuteness will insure funding for the lower ranked items also. If budget review sessions alter the priority listings of agencies using this approach, they may then complain that the ZBB process was useless for them since input was slighted. Another problem arises when organizations attempt to rank disparate programs. They may truly feel that all their programs are important or that no valid means of comparing programs exists. Opportunity and displacement costs aside, it is still extremely difficult to rank the relative value of such dissimilar programs as job-training, health care, and B-52 operations.<sup>30</sup> especially when all the programs are the result of legislative mandates.

Commentators assert that yet another problem with the ranking process is that it is of only limited value since "program priorities [are] influenced by the amount of funds likely to be available, rather than the other way around."<sup>31</sup> This was in fact the case when Georgia used ZBB:

When a projected funding level changed, department heads were required to submit new decision-package rankings rather than shifting the funding cutoff line (down or up) to accommodate (more or fewer) marginal decision packages. This was in recognition

of the fact that program priority was influenced by the amount of funds projected to be available. 32

In summary, agency personnel like to feel that, rather than working in a vacuum, they realistically attempt to make the best of what they can expect to have. The requirements that minimum levels be established and priorities ranked has usually been seen as a threat of decreased appropriations rather than as a management tool for reordering spending efforts.<sup>33</sup>

ZBB as a Tool for Measuring Performance  
and Clarifying Objectives

We have already analyzed the ingenuity of some administrators that has gone into devising ranking schemes. No less amount of effort has been expended on determining accurate and relevant performance measurements. The manager attempting to develop performance standards for use in his ZBB package is faced with a monumental task. There are two basic problems involved in obtaining meaningful performance measures of government services. One is the technical criteria to be used in the evaluation itself, and one is in the behavioural barriers to and implications of performance standards. Politicians and administrators alike are faced with questions of whether it is possible to accurately identify performance measures for government services, and, if so, does one really want to?

Assuming an organization has clearly articulated objectives, it may still be very difficult to identify the output if it is in the form of intangible services, as is the case with most government programs. A differentiation must be made between

measurements of work accomplished and the effectiveness of goal accomplishment. Because the former is much easier, many organizations simply relate the resources to be applied toward the attainment of an objective. Operations indicators are frequently selected because the data is readily available and they are simple to understand, but they usually provide little insight into how well needs or objectives are being met.<sup>34</sup> The temptation to measure intangible services by the use of these indicators, which are usually either measures of workload (for examples, banks to examine or miles of highway to maintain) or resources used in the conduct of a program (for examples, man-hours of work or tons of chemicals used), can easily lead to viewing resource utilization as an end in itself to the neglect of actual objectives.<sup>35</sup> Other measures, such as program impact indicators or social indicators, are more relevant to actual program evaluation, but they are more abstract and thus more difficult to quantify.

Another technical problem associated with determining performance standards is whether a single, multiple, or composite measure will prove most accurate. There are problems associated with each. Single measures of performance usually cannot address all the dimensions of activity that occur in an organization, thus resources can be diverted from hidden activities into one being measured. A single measure may motivate individuals to effort, but the effort may be wasted or detrimental to the organization's overall goal. Perhaps the classic

example of this was in use in a public employment agency studied by Peter M. Blau:

The agency's responsibility was to "serve workers seeking employment and employers seeking workers." Employment interviewers were appraised by the number of interviews they conducted. Thus the interviewer was motivated to complete as many interviews as he could, not to spend adequate time in locating jobs for the clients. The organization's goal of placing clients in jobs was not given primary consideration because the measurement device applied to only one aspect of the activity.<sup>36</sup>

Because of the recognized inadequacies of single measures, many writers have stressed the importance of multiple criteria in evaluating performance. These, however, are not without their problems, the two main ones being that the action on one measure might adversely affect another measure and that there must be some explicit weighting or hierarchy of measures that will direct management efforts to the most important areas.<sup>37</sup> The use of multiple criteria is intended to focus attention on many facets of a particular job, but they may still not offer a method for evaluating performance in a decision-package. As V. F. Ridgway observes:

The use of multiple criteria assumes that the individual will commit his or the organization's efforts, attention, and resources in greater measure to those activities which promise to contribute the greatest improvement to overall performance. There must exist a theoretical condition under which an additional unit of effort or resources would yield equally desirable results in overall performance, whether applied to production, research, safety, or public relations or any of the other suggested areas. . . Without a single composite measure of performance, the individual is forced to rely upon his judgment as to whether increased effort on one criterion improves overall

performance, or whether there may be a reduction in performance on some other criterion which will outweigh the increase in the first. This is quite possible, for in any immediate situation many of these objectives may be contradictory to each other. 38

In an effort to obtain a balanced stress on objectives, composite measures of performance are sometimes employed. This is done by assigning weights to various subgoals, then combining all the measures for a composite score on overall performance. This method, however, also has inherent problems. In fact, Ridgway notes that there is a "clear indication that their use may have adverse consequences for the overall performance of the organization."<sup>39</sup> Organizations sometimes raise goals and expectations without simultaneously raising resources with which to accomplish them--a situation which, one might argue, is a consequence many jurisdictions using ZBB would like. When multiple measures of performance are utilized, an individual might relieve pressure by emphasizing one criterion vis-a-vis a second criterion, but this relief is not normally possible with a composite criterion. Studies show that the adverse consequences that may result from the use of composite measures include tension, role and value conflict, reduced morale, communication distortions and blockages, and organization and power structure changes.<sup>40</sup> While it might be argued that some of these consequences are desirable, the overall result could easily be less effective performance. Thus the manager who sets out to establish performance standards for inclusion on his ZBB package must

take into account more than how they might affect his dollar appropriations. He must be aware of the motivational and behavioral consequences of these standards on his employees.<sup>41</sup>

One writer analyzes the problems associated with establishing performance measurements even further, and asserts that measures themselves sometimes cannot be measured, and may prove useless.<sup>42</sup> Operations indicators, for example, may present problems of quantification. "Even if data on several performance indicators are available, it may not be feasible to combine them into a single index due to the fact that these various measures are not additive or comparative."<sup>43</sup> Further, in many cases several organizations and programs contribute to the attainment of the same objective, thus the measurement problem becomes one of determining which benefits to credit to which of the organizations or programs. A corollary of this is matching various benefits to the particular costs of attaining them when the organization or program works towards the attainment of multiple objectives. Additionally, measures of performance must be flexible enough to adapt to objectives and requirements that change over time. A national guard unit, for example, is expected to perform quite differently during a natural disaster than during daily training exercises.<sup>44</sup>

The aforementioned technical problems of establishing performance standards and improving efficiency are certainly obstacles in the formulation of a ZBB system, but there may also be other equally important reasons for a manager to be wary of evaluations. The nature of the service his program



offers may be such that it is simply not amenable to clear-cut management and control systems. There may also be a deficit of knowledge in the field that can be used to develop standards. The planners and managers of programs that deal with social problems, for example, have very little information on how to achieve results most effectively.<sup>45</sup> The problem may be one of a dearth of information, such as the few indices at present that show achievement in education, or there may be extraneous factors that impact on a program, such as high unemployment rates which minimize welfare services designed to help recipients to become self-supporting.<sup>46</sup>

The institutional settings of government agencies frequently impact on the manager's ability to measure performance and improve efficiency. Especially on the local level, one finds agencies that are part of a complex network of outside high-level agencies that limit their autonomy.

Key program and policy decisions in local government are often circumscribed, if not completely determined, by outside agencies. Public managers in cities are thus held responsible for decisions whose parameters they don't control. In brief, there is an imbalance between authority and responsibility, and it causes serious problems.<sup>47</sup>

One such problem arises when agencies receive part of their operating funds from federal agencies with different fiscal calendars, thus making budget development at all difficult. Another problem in achieving increased productivity arises when a line agency is part of an interagency network in its delivery system, such as can be seen in the court system,

where different actors in the criminal justice system have different priorities. These problems can be compounded still further if the agency is subject to review and monitoring by what are called overhead agencies, such as personnel and purchasing departments, who can easily stall decisions on routine matters and innovative programming alike.<sup>48</sup> The administrator might point out that his program has multiplier effects which are difficult to assess and evaluate, or that more time is needed to bring a project to fruition. For almost every argument on what can be used to evaluate effectiveness and efficiency, there is a counter-argument on why that measure is not accurate or relative.<sup>49</sup>

One of the major problems associated with measuring performance is the virtual monopoly of services held by many government agencies. This provides little incentive to curtail or abandon unproductive activities, but more importantly it leads to a secure market in which administrators and politicians alike find it most prudent not to specify objectives-without which, of course, there can be no standards of performance. Elected officials usually focus on inputs rather than outputs during their campaigns; on the resources they have brought in, not the results of applying those resources.<sup>50</sup> Consequently, they have little time and less inclination to read program evaluation material unless it responds directly to their concerns and questions. They and managers of programs may in fact

encourage mass ignorance on decisions and promote the existence of multiple objectives since it enables them to achieve consensus on what may otherwise be doomed proposals.<sup>51</sup>

Finally, performance standards may be difficult for the manager preparing a ZBB package to specify and even harder for him to obtain because of the internal structures of the organization. There are certainly obvious obstacles associated with motivating an organization to work towards an objective by applying performance standards. Equally crucial, however, may be the covert organizational dynamics and the acute need for survival which may cause organization members to alter their course of action, thereby altering the organization's final objectives. As Thompson points out, there are two analytically distinct systems operating within every organization, an "artificial" system which is established to achieve certain goals, and a "natural" system which will distort them:

An artificial system is designed by the creators of an organization. The system is goal-directed; the goal is determined by the organization's "owners". As rationally as possible, the artificial system is designed to match appropriate technologies to the given goal. In many ways, the artificial system may be likened to the Weberian "ideal type" bureaucracy. It is a "tool", rationally designed to effectively achieve specified goals.

Artificial systems must function in a larger social context. However, designers cannot anticipate all the environmental contingencies and constraints which will face the artificial system. In order to cope with these unforeseen environmental extingencies, members deviate from or embroider on their prescribed roles. As a result, the organization incrementally changes in ways that were not anticipated by the designer. The sum total of these unanticipated changes constitutes the natural system.<sup>52</sup>

Thus, while an organization may set out conscientiously to work toward the goals prescribed for it, unforeseen influences may change what the members come to see as desirable goals.

The manager attempting to establish performance standards must take into account the management culture and tradition that exists within his agency and the personnel reactions he can anticipate from employees. Standards of performance and associated measurement systems may or may not achieve the desired results depending on how they are received by those who perform the activities they seek to measure. Douglas McGregor notes that performance measurement systems may work, even if less well than desired, but they may also have important unintended consequences. Among them are:

1. Widespread antagonism to the controls and to those who administer them.
2. Successful resistance and noncompliance by many employees at all levels within an organization up to the top (and sometimes there also).
3. Unreliable performance information because of employee antagonism and resistance to the administrative controls.
4. The need for close surveillance of employees. This results in a dilution of delegation, which cuts into managerial time and impedes the development of workers.
5. High administrative costs. 53

The key to an effective standard of performance is agreement by the person being judged that it is a good standard; however, many people may view a performance evaluation as a potential threat. This is especially true if punishment is emphasized, if a lack of trust exists between employees and

higher authority, or if self-esteem and career expectations are jeopardized.<sup>54</sup> An actual threat to any of these factors need not exist--the effect is the same if the employee perceives the threat, whether real or imagined. Again quoting McGregor:

One fundamental reason control systems often fail and sometimes boomerang is that those who design them fail to understand that an important aspect of human behavior in an organizational setting is that noncompliance tends to appear in the presence of a perceived threat. This noncompliance takes the form of defensive, protective, resistant, aggressive behavior. Note that I have used the words "perceived threat". Feelings are facts! The question is not whether management believes the control procedures are threatening; the question is whether those affected by them feel they are.<sup>55</sup>

Actions that ensure noncompliance are usually as ingenious as the employee and as effective as the situation demands.

Sabotage of a performance measurement system may also come at the hands of those who do not feel threatened, but may feel insulted. This is especially true of professionals involved in human service agencies, who may feel that efficiency measures are dehumanizing to their clients, and trivial when compared to their broader concerns of responding to the needs of all their constituents and redressing inequities that the wider society has imposed on minority populations.<sup>56</sup>

In summary, the technical problems associated with formulating a zero-base budget may be of such size and complexity that an agency attempting to do ZBB may produce a budget that is at best a caricature of one that conforms to true ZBB theory. Whether the costs are worth the benefits is the bottom line

that each agency must evaluate. There are some who argue, however, that the technical problems associated with attempting to formulate a comprehensive budget are not the main objections. They point out that such systems make cognitive assumptions which are unrealistic, and that to attempt to formulate budgets comprehensively leads to futile efforts and undesirable consequences. This argument is the subject of the next chapter.

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## CHAPTER VI

### COGNITIVE CRITICISMS OF ZERO-BASE BUDGETING

Zero-Base Budgeting has suffered unpopularity because of the administrative difficulties it has created, but the concerned citizen and professional administrator alike may dismiss these difficulties as invalid reasons for abandoning ZBB on the superficial assumption that the agency could surmount problems with the system if it only would. There are, however, commentators on the subject of administration in general and budgeting in particular who argue that there is a deeper, more subtle reason why budgetary systems, such as ZBB, that are premised on rational decision-making fail. This reason, very generally and simply stated, is that man's intellectual capacities in relation to the problems he can create are meager, thus he is severely limited in his ability to overcome the difficulties associated with rational decision-making.<sup>1</sup> This chapter will explore some of those difficulties, contrast them with problem solving that uses an incremental approach, analyze how they relate to the zero-base budgetary process, and evaluate the possibilities of meaningful reform under each problem-solving method.

We have previously outlined (chapter I) the steps to problem-solving employed by a rational calculation system. A cursory review of these steps reveal that a wealth of information and analytical resources are needed by the administrator before he can assure himself that he has identified viable alternatives to a policy or level of activity,

and has subsequently recommended the most desirable. In his attempt to identify these alternatives, he will encounter many problems, among them: obtaining reliable and current information, establishing effective communication channels among affected participants, identifying the combinations of variables and the consequences of including or excluding each, and identifying and analyzing the complexity of the relations among the variables.<sup>2</sup> If the administrator is successful in overcoming these obstacles, he can identify the optimal policy for his department to pursue in a given area, and, presumably, the optimal way of realizing the objectives of that policy. ZBB requires that this method of decision-making be used. It attempts to achieve "optimal" decisions by requiring:

a specification of outputs or objectives and the establishment of units of measurement, preferably in quantitative terms. . . [and] knowledge of the relationships between inputs and outputs . . . [and] quantitative analyses of possible alternative objectives and of alternative means for meeting these objectives. 3

Rationalistic decision-making such as has been outlined here assumes a high degree of control over the environment by the decision-maker,<sup>4</sup> and in the context of ZBB would shift primary policy-making authority from the legislative to the executive branch.<sup>5</sup> The assumption that logically follows is that fewer parochial interests would be served, more objective decisions made, and consequently a reordering of programs in a fashion that would render most-needed services at maximum effort for the least possible cost.

Proponents of a ZBB system argue that such results have not been realized in the past, that programs have been allowed to exist and expand beyond their original purpose, and that inefficiencies have been built into the system mainly because incremental decision-making has been practiced. Rationalism and incrementalism are often described as being the opposite ends of a decision-making continuum. While practitioners of rationalism search for the optimal alternative to a policy or level of activity, those who practice incrementalism search for one that is good enough to elicit agreement among the various bodies it affects without necessarily being the best policy, as defined by some objective standard. Rather than studying all possible alternative and their consequences and recommending a shift to the one that is deemed best, incrementalism recommends only marginal changes from the status quo on the belief that this engenders less conflict among delicately balanced interests and is more realistic in that the decision-maker is dealing with information and alternatives whose consequences he can readily evaluate. Much less command over the environment by the decision-maker is assumed. The classic description of incrementalism is that set forth by Dahl and Lindblom in Politics, Economics, and Welfare:

. . . Incrementalism is a method of social action that takes existing reality as one alternative and compares the probable gains and losses of closely related alternatives by making relatively small adjustments in existing reality, or making larger adjustments about whose consequences approximately as much is known

as about the consequences of existing reality, or both. Where small increments clearly will not achieve desired goals, the consequences of large increments are not fully known, and existing reality is clearly undesirable, incrementalism may have to give way to calculated risk.<sup>6</sup>

Again, the steps a decision-maker follows using an incremental method have been outlined in Chapter I. While these steps may appear simpler and less analytical than those of the rationalistic method, it would be incorrect to assume that they are any less sophisticated. As we shall see, there are many who argue that comprehensive analysis can and does occur in incremental decision-making, and does so in a more acceptable fashion than results from rational decision-making. It should first be noted, however, that as some scholars have pointed out, rationalism and incrementalism are not mutually exclusive. One such scholar is Amati Etzioni, who believes that the decisions made by each method greatly influence the character of the other. He points out that incrementalism is not effective in making the large or fundamental decisions, such as a declaration of war, but that these decisions are often anticipated by the preceeding incremental ones. As he notes:

most incremental decisions specify or anticipate fundamental decisions, and the cumulative value of the incremental decisions is greatly affected by the related fundamental decisions.<sup>7</sup>

He therefore posits an approach to decision-making which he calls mixed-scanning. This approach recognizes that while most daily decision-making in an organization is incremental in nature, it is occasionally necessary to step back and take a broad overview of the course of action being pursued to see

if any "danger" spots are being ignored, if no improvement in the situation is being realized, or if in fact the environment is worsening. He recommends that part of the organization's staff be engaged in comprehensive, long-term planning which would correct for these deficiencies. This approach is not without problems. One of these is the organizational problem of integrating recommendations from the staff engaged in long-term planning with those of the people who make the daily decisions and are reluctant to see a drastic, and perhaps unproven, departure from current methods. This approach further "assumes that both the observer and the actor have a capacity to evaluate decision-making strategies and determine which is more effective,"<sup>9</sup> a capacity which incrementalists would argue does not necessarily exist. Finally, there is the problem of obtaining legislative agreement to institute changes in the fundamental course of an organization even if the organization itself can agree on those changes.

Since ZBB is premised upon rational decision-making as opposed to incrementalism, we shall limit our discussion to those two methods.

There are commentators who argue that one reason that rationalism does not enjoy popular use is simply because man, as a thinking animal, does not have the capacity to follow the tenets of rational decision-making. As one scholar asserts:

Limits on human intellectual capacities and on available information set definite limits to man's capacity to be comprehensive. In actual fact, therefore, no one can practice the rational-comprehensive method for really complex problems.<sup>10</sup>

It is in fact these two factors, man's limited intellectual capacities and the various levels of knowledge that exist in a given field at a given time, that are most often cited as impediments to rational calculation. In his analysis of normative decision-making models, Dror concludes that:

with a few exceptions. . . pure rationality policy-making is in fact impossible. . . Constructing complete, weighted inventories of values and resources, identifying all alternatives, making valid predictions of the costs and benefits of alternatives--these tasks are far beyond our knowledge and capacity. 11

He goes on to dissect each of the steps a policy-maker using the rational-comprehensive method would use, and concludes that it makes demands which are simply infeasible. Besides having to overcome the difficulties associated with defining operational goals and final values at which a certain policy is directed, Dror asserts that "having to list all alternatives [including the policy of doing nothing] is an impossible task, both quantitatively and qualitatively."<sup>12</sup> He further sees major problems in attempting to prepare a complete set of valid predictions of the different real benefits and costs of each alternative policy. Since predictions are based, for the most part, on past experience, reliable prediction becomes harder for new alternatives. "The more complete the set of alternatives is, the less complete the set of reliable predictions must be, and vice versa."<sup>13</sup> For these reasons, as well as the uncertainty of outcomes of government policies, he concludes that most issues of public policy-making are destined to stay outside the domain of rationality.<sup>14</sup>

One of the clearest ways to understand the impact of our bounded rationality on decision-making is by studying the problems associated with value articulation. Particularly in the area of complex social problems, rational calculation provides little assistance in determining which values are important in society and therefore which policies should be advocated. Lindblom outlines three major problems in this area. The first lies in obtaining agreement among citizens, elected officials, and public administrators on what the critical values and objectives of a policy should be. Even where agreement on a broad issue can be reached, there is room for disagreement concerning sub-objectives. On many issues, no specific public sentiment is in evidence, thus policies must be formulated without articulated objectives. Where there is an apparent preference, the administrator must weigh such divergent factors as intensity of feeling and the number of people supporting the objective. Secondly, values often conflict, and the administrator must decide how much of one value to sacrifice for another. Finally, social objectives may have different relative values depending upon the circumstances.<sup>15</sup> Lindblom sees no rational way to solve the dilemma:

The value problem is. . . a problem of adjustments at a margin. . . Even if all administrators had at hand an agreed set of values, objectives and constraints, and an agreed ranking of those values, objectives and constraints, their marginal values in actual choice situations would be impossible to formulate.<sup>16</sup>

Yet another problem encountered in attempting rational calculation is that man's bounded rationality prevents him from knowing all the consequences of his decisions. Any given course of action, as we have seen, may produce unforeseen results which alter an evaluation of whether that decision was in fact the optimal one. We have briefly mentioned some of the technical problems associated with object articulation. One may additionally argue that rational attempts to specify desirable outcomes are futile since we cannot even know whether the outcome we are striving for is desirable until we have actually tested the goal. Concrete experience is the adequate test of desirability.<sup>17</sup>

There are, of course, fields of endeavor in which rational calculation is a highly realistic possibility. These are generally areas that are limited in their scope and in which a large amount of specialized knowledge is available. "Compare, for example, the calculations of an engineering firm on the probable savings to be derived from a new machine with the calculations of social scientists on the consequences for human personalities of increased mechanization."<sup>18</sup> Dahl and Lindblom go on to say that the vastly different levels of knowledge that exist in various fields suggest several important conclusions about rational calculation. First is that repetitive events increase the opportunities for rational calculation. The specialist, therefore, who deals with a category of repetitive events increases his capacity for rational calculation, but



out of necessity usually ignores some important variables. This, they assert, is why rational calculation often proves less feasible in government than in business or industry:

The important policy choices made by governments are usually made in relatively non-repetitive situations, in which correct forecasting is difficult or impossible. Assuming equal capacities for rational action, policy-makers in government typically face much more difficult problems than policy-makers in business. <sup>19</sup>

Second, they point out that sometimes the cost and probability of obtaining the knowledge needed to attempt rational calculation is not worthwhile, particularly if the goals involved are trivial. This aspect has been specifically criticized in the zero-base budgeting process, where analysts have charged that inordinate amounts of time and manpower have been spent to formulate recommendations that offered little substantial change in the status quo or that affected only a minute part of the budget (such as the oft-cited air quality laboratory package which affected 3/100,000 of the Georgia budget). <sup>20</sup>

Finally, Dahl and Lindblom charge that waste and error are inherent costs of attempts to make rational calculations. They point out that many important decisions are calculated risks and therefore entail this possibility but that the decision to invest massive amounts of resources on projects may prove quite costly as available technology and the state of knowledge in the field changes. <sup>21</sup>

Since rational calculation often seems so costly, time-consuming and ultimately futile, the administrator often finds himself employing short-cuts to this method of decision-making and budget formulation. Rather than searching for optimal solutions, he "satisfices--[or] looks for a course of action that is satisfactory, or good enough."<sup>22</sup> The term satisficing was coined by Herbert Simon to describe what he calls the real-life alternative to traditional economic doctrine which holds that organizations make key decisions on the basis of information that maximizes their results. This, he believes, is an elusive and unrealistic goal, and must therefore be modified by the manager. According to Simon;

Satisficing is intended to be used in contrast to the classical economist's idea that in making decisions in business or anywhere in real life, you somehow pick, or somebody gives you, a set of alternatives from which you select the one best--maximize. The satisficing idea is that first of all, you don't have the alternatives, you've got to go out and scratch for them--and that you have mighty shaky ways of evaluating them when you do find them. So you look for alternatives until you get one from which, in terms of your experience and in terms of what you have reason to expect, you will get a reasonable result. 23

This, however, does not mean that managers must or should content themselves with the first alternatives that occur to them. Human inertia and the strength of conservative forces in organizations makes it hard to achieve even satisfactory quality. A big danger is that the search for alternatives will stop early, and the standard for satisfaction will be lowered accordingly.<sup>24</sup> This need not happen, however. There are many ways of raising the organization's satisficing level,

determining what is feasible, and evaluating what is possible. One of these methods is through incremental calculation, or examining marginal changes from current practices.

As a form of decision-making, incrementalism is routinely denounced by both politicians and administrators who nevertheless find themselves routinely practicing it. Much of its undesirable reputation has apparently evolved from a belief that it perpetuates intellectual laziness, while this in actuality is usually not the case.

Incrementalism should not be confused with a simple commitment to the idea that gradual change is always preferable to rapid change. The greater the degree of scientific knowledge available about a given instrumental goal, and provided people are reasonably confident about their preferences, the larger is the increment of change that can rationally be made. 25

Those who espouse the incremental form of decision-making argue that it is the most desirable form in that it provides the flexibility necessary to adapt programs to constantly changing objectives without destroying the organization by withdrawing financial support. They point out that thinking about objectives may be highly desirable, but tying budgetary allocations to them is not. This is particularly true in the case of zero-base budgeting, which requires that objectives be ranked without consideration of available resources. Final resource allocations will affect not only what an agency wants to do, but also the manner in which it is done. Thus, "resources affect objectives as well as the other way around, and budgeting should not separate what reason tells us belongs together."<sup>26</sup>

Still others argue that the serial, remedial, ameliorative nature of incrementalism allows the policy-maker to deal with problems that are increasing in number and complexity. This view holds that "Decision-making is serial or continuous--continuous attacks on a permanent but changing problem within the jurisdiction of a particular decision-maker or decision-making unit. Problems are not solved; they are alleviated."<sup>27</sup> One way that incrementalism helps alleviate problems is by frequently reversing the means-ends order. Rather than searching for a means to accomplish a fixed end, incrementalism advocates adjusting ends to fit the means, or objectives to policies, as a way of serving the needs and reaching policy agreement among a broader spectrum of the population.<sup>28</sup>

Further, advocates of incrementalism argue that, rather than rationalizing bureaucratic inertia, incrementalism in fact makes creativity and innovation possible:

Comprehensive problem-solving places on the decision-maker an enormous responsibility. The decision-making job is factored into single, nonoverlapping, nonduplicative assignments. Each decision-maker must be right in predicting all the consequences of his decision. Everyone else depends on him to do his job perfectly, and no one else is going to pick up his oversights and omissions. Under such circumstances many people become immobilized; they seek to avoid making decisions. The inertia of large organizations arises not out of incremental strategy, but out of an attempt to be comprehensive and the kind of administrative organization that this attempt promotes.<sup>29</sup>

As the above suggests, although an organization may use incremental strategy and choose satisfactory rather than optimal alternatives, they may nevertheless continually raise their

aspiration level and widen the range of alternatives from which they make decisions thus allowing room for new ideas and dynamic growth. The research and development departments of many organizations, for example, have institutionalized the process of looking for new opportunities. As Herbert Simon points out "In organizations that are operating effectively, there is continual movement, a continual assessment of what's possible, and a continual attempt to widen what's possible."<sup>30</sup>

Incremental decision-making appears to be the method used most often in solving complex problems that are confronted on a personal as well as governmental basis. The attempt by ZBB to change this, as has been pointed out, apparently has been unsuccessful. There are commentators who further assert that, in the final analysis, the rhetoric surrounding the virtues of comprehensive calculation is more harmful than helpful since it makes an administrator defensive and secretive about the incremental strategies he employs rather than allowing him to bring them out in the open thereby subjecting them to scrutiny and possible improvement. As Wildavsky argues:

All that is accomplished by injunction to follow a comprehensive approach is the inculcation of guilt among good men who find that they can never come close to fulfilling this unreasonable expectation. Worse still, acceptance of an unreasonable goal inhibits discussion of the methods actually used. Thus responsible officials may feel compelled to maintain the acceptable fiction that they review (almost) everything, yet when they describe their actual behavior, it soon becomes apparent that they do not.<sup>31</sup>

This apparently was the case in the State of Georgia, where ZBB failed to diminish the influence of incremental decision-

making despite Governor Carter's proclamation that everything would be justified from scratch. Thomas Lauth, in his article "Zero-Base Budgeting in Georgia State Government: Myth and Reality," reports on how agency officials there formulated budgets under the ZBB approach:

In order to assess the extent to which budget requests were being built from the ground up with basic programs rejustified annually, agency budget officers were asked to describe the manner in which they proceed in the preparation of their annual budget requests. None of the twenty-eight budget officers interviewed described his/her approach in terms of a systematic reconsideration of existing agency programs and operations. The notion that budgetmakers start from zero or that programs and agencies are annually on trial for their lives was rejected by all those interviewed. Without specifically using the language of incrementalism, most described an approach to budget preparation that is characteristic of the incremental approach to decision-making.<sup>32</sup>

A study of the techniques of budget formulation and the realities of decision-making provide valuable insights into the difficulties experienced by the use of the zero-base budgeting process. They provide only a partial explanation, however, of how ZBB fared as a reform movement, and of the role it is likely to be consigned by practitioners and administrators. Equally as important as these reasons, but very little discussed thus far, is the political naivete of ZBB. The bottom-line for legislators in making budget choices is political astuteness. As I hope to demonstrate in the next chapter, following the tenets of ZBB leaves one too vulnerable politically, thus accelerating its demise as a form of budgeting.

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## CHAPTER VII

### POLITICAL PROBLEMS OF ZERO-BASE BUDGETING

The arguments detailed against zero-base budgeting thus far are the most often cited in the literature, and are the most easily identifiable within an organizational structure. Instituting reform in a recalcitrant agency is often difficult under the best of circumstances. The obstacles presented by ZBB appear to make it more so. We have seen how agencies struggle to meet the increased time and paperwork demands of ZBB, rebel against hastily-imposed and often arbitrary performance standards, and suffer from a sense of futility at being able to achieve so little cost savings for their massive efforts. We have also analyzed the intellectual difficulties of attempting rational calculation. There are undoubtedly many who would still argue, however, that waste in government has grown so prevalent and the need for cost reductions so crucial that any amount of time and effort required by an agency is worthwhile if it can result in better management. The fact that some bureaucrats are inconvenienced, or perhaps even insulted, by the rigors of ZBB may be seen as an unfortunate but only incidental by-product of attempts to make government more efficient. The conscientious manager may be very well aware of this feeling, and may indeed hold similar views himself. If one assumes that many managers are dedicated public servants who, like their private industry counterparts, are eager to

improve the functioning of their operations, the foregoing arguments against ZBB present formidable but not persuasive reasons to abandon the system. I therefore submit that the major reason for the demise of ZBB is more subtle yet deadly, and concerns its political naivete. The manner in which ZBB forces choices simply places policymakers in politically untenable positions.

The political opportunity costs involved in rational calculation methods have thus far been only hinted at by analysts of the budgetary process. Yet decisions reached at every stage of budget formulation are first weighed, consciously or unconsciously, for political viability. This chapter will explore some of the political problems presented by the use of ZBB, including the perversity of clarifying objectives, the costs of breaking faith with citizens on matters considered settled, and the influence of interest groups on budget decisions.

Following the tenets of ZBB requires that previously sacrosanct territorial rights be relinquished. This occurs on the micro-level, where the individual manager is forced to make commitments that will result in his suffering a loss of credibility and respect among his subordinates. He may additionally suffer repercussions from outside groups and agencies who are impacted by his priority rankings. On the macro-level, ZBB requires that budgetary decision-making be concentrated in the executive rather than the legislative

branch of government. Whether this is a viable procedure, or a desirable one, is of considerable debate.

An impartial observer might conclude that making rational choices among program options--thereby saving money and hopefully increasing efficiency--should be the primary goal of those involved in making budget decisions. Indeed, actors in the process often publicly claim that as their mission. Frequently, however, other, less altruistic considerations influence how budget appropriations are decided, particularly among the legislators who have the final word. The politician may, for example, be much more interested in funding programs which will promote his short-term electoral concerns than he is in saving money. Public-sector managers are not oblivious to this reality, nor can they be expected to ignore it. In addition to the ultimate importance of respecting the priorities of legislators, the manager feels pressure from a multitude of outside influences, including interest groups, the press, and the courts, all of whom may be quite powerful and capable of rewarding or punishing the manager in many ways. Staffing appropriations, political credibility, and public support may all be on the line when a manager commits himself to a priority ranking of his programs, so he tends to take into account outside participants and their particular priorities when formulating his own. Rational decision-making in this context may not always be wise from the organization's point of view. "Judgments of success and failure are made in the political

arena, and notions of political feasibility and political rationality are at least implicitly used in managerial decisions."<sup>1</sup> This is not to say that managers are unaware of the implications of their actions. They may fully understand that a relatively useless pet project is being perpetuated at the expense of a badly needed program, but as one commentator noted, "[the manager's] plight is not unlike that of the mice in the nursery story; all agree that the cat should wear a bell, but none can agree who should hang it on him."<sup>2</sup>

The astute manager who is interested in survival, as well as genuinely committed to his programs, is not likely to incur the wrath of people or groups who have influence over him. The manager who fails to rank highly the favored project of a local politician may in turn see support for his favored program, or for himself, quickly erode. The manager may have court-ordered obligations to fulfill that consume large chunks of his budget, although he may personally consider these obligations to be low-priority. The manager must also be cognizant of the prevailing attitudes of the press, and the public toward certain programs. Benefits provided to the elderly, for example, usually enjoy great public support. The manager may be able to identify what he considers more beneficial programs, but he would be extremely reluctant to recommend appropriations for popular programs in order to fund the new options, and if he did he would probably meet with resistance.

In fact, public expectations play a large role in budget appropriations. There are certain public expectations of appropriate functions of government, such as providing social amenities, that have evolved over the decades. This evolution appears to be continuing, and is evidenced in the growing movement to grant or guarantee what are often called positive rights.

These are rights to basic human needs that are not otherwise attainable in a society with large-scale inequality. . . Positive rights include the right to health and medical care, the right to retire in old-age with a pension, and the right to an education. In earlier eras characterized by greater individualism and self-sufficiency and less industrialization and urbanization, these rights were generally thought to be an individual's and his or her own family's responsibility. Increasingly, in recent times, they have come to be seen as beyond most individual's ability to attain without positive government assistance.<sup>3</sup>

James Q. Wilson also emphasizes the importance of public expectations in making budget decisions. He argues that new policies of government are adopted as a result of changes in public opinion which allow formerly private relationships to be placed on the public agenda. He identifies new policies born in this manner to include, among others, major social welfare measures, regulations aimed at consumer protection, anti-poverty programs, and ecology legislation.<sup>4</sup> Wilson goes on to assert that major policy innovations have occurred due to the efforts of "competitive office seekers to find and attract new constituencies and satisfy new demands."<sup>5</sup>

Many programs which address these problems have developed, both in funding and in scope of activity, through a long

bargaining process that has seen public demands translated into legislative action. The political costs of breaking faith with citizens on matters thought to be resolved in the past are high indeed, and ZBB will not alter this. Officials contend that these programs will not be eliminated or significantly reduced for reasons of economic efficiency no matter how compelling the data and analysis. "Agencies will continue to do about what they have been doing because the public in some general sense expects the continuance of programs."<sup>6</sup> The manager formulating priority rankings and the legislator making appropriation decisions must weigh those public expectations against their own judgments of program desirability. One advocate of ZBB warned that attempting to use it in a political environment could sabotage the process and render it a futile waste of time since "correct" professional decisions would be superceded by "self-serving" political judgments.<sup>7</sup> It is difficult, however, to imagine an environment in which scarce resources must be allocated that does not carry political overtones.

Recent attempts, for example, by the Reagan administration to make highly-visible and well-publicized cuts in social programs seems to highlight the political difficulties experienced when public expectations are drastically changed. Particularly in programs where both benefits and costs are widely dispersed so that one group does not feel too keenly the burden of assisting another, and where benefits are

perceived to outweigh the costs (as in the case in the social security program) "there is almost nothing one can do to effect change other than to suggest further increases in benefits."<sup>8</sup> For this reason, the political body considering adoption of a budget may specifically wish to limit it to financial control only and not use it for management purposes. By not translating one's intent in approving line-items of expenditures into equivalent program changes, politically sensitive issues may be avoided.<sup>9</sup> Leaving one's objectives for approving an expenditure ambiguous also increases flexibility that allows disparate political factions to come to agreement on programs. Both conservatives and liberals may agree that an expenditure is necessary, but for very different reasons. To have to publicly commit themselves to certain objectives, as would be required in ZBB, might preclude consensus on a budget expenditure. Although some government agencies have been called to task for having nebulous objectives, there is a certain amount of perversity in clarifying them. On the more negative side, that ambiguity is frequently encouraged by the political system, where tensions are increased when politically unpopular choices are forced. In situations where program cuts clearly must be made for reasons of financial scarcity, the battle-scarred line-item of expenditure budget may actually prove the most sophisticated system since it provides both the agency and the legislative body with a medium for making reductions in a less visible manner than would be allowed by a ZBB system.

When budget reductions are the goal, ZBB may in fact serve to aggravate what is already a politically volatile situation, since consequences of reductions are defined and highlighted, thus becoming difficult to ignore. The irate protests of powerful supporters of programs may become organized and influential when those supporters are given ample opportunity to see how budget reductions directly impact upon them. Sometimes protest is not even necessary, so sensitive are most politicians to constituent desires. This has certainly been the case in the federal government, where some programs have enjoyed relative immunity from ZBB scrutiny and where politicians have ignored the recommendations that would eliminate or reduce more popular items.

Perhaps the classic example of this in the FY 1979 federal budget was the attempt by the National Oceanic and Atmospheric Administration (NOAA) to zero-base out of existence a number of weather stations throughout the country. This attempt was carried forth in NOAA's budget to Congress. For Congress, however, ZBB priority "rankings" were another story. Congressional criticism leveled at NOAA for proposing these closures was intense. . . Perhaps Senator Weicker, a member of the Senate subcommittee reviewing the NOAA appropriations request, spoke for all members of Congress when he said that while he agreed with the administrator of NOAA that "it is a responsibility on our part to do away with programs," still "obviously we (i.e., the Congress) are sensitive to another situation." As Weicker went on to say,

I will tell you the problem right now. Both Bridgeport . . . and Block Island . . . two of the 19 stations proposed for closure, have a hell of a lot of affluent boaters. And I can imagine what will be raised on that count, whether or not the substitute service is going to be as good or not. 10



Other agencies have felt more certain of their support and have consequently maintained that there was little incentive to even go through the ZBB process of identifying reduction levels for their programs. Such is the case in the National Institutes of Health, whose programs are viewed throughout the federal government as invulnerable by Congress, which frequently gives them more money than they request. As one official noted, "what the Administration knocks out, Congress adds back."<sup>11</sup> This situation is undoubtedly no less prevalent on the state and local levels of government.

The above examples, and the assertion that the political nature of the budget renders it a poor tool for achieving cost reductions, seems more plausible if one examines who pays for and who benefits from various programs. It is particularly difficult for a budgeting technique to restrain growth when both the benefits provided by a program and the costs incurred by that program are widely distributed among the citizenry. There are nevertheless times when the costs are perceived to exceed the benefits, with the result being a "taxpayer's revolt." As Wilson points out, however,

[These are] rarely successful because the same force--a sudden, adverse change--that stimulated the formation of the anticost group will lead to the formulation of a probenefit group should politicians try to cut the budget sharply. Most office holders, knowing that they cannot reduce the education or welfare budget by any significant amount without precipitating an organized counterattack, rarely try very seriously to do so.<sup>12</sup>

Another pattern of distribution occurs when benefits accrue to a narrowly concentrated group of people, but the costs are widely distributed, as is the case with, for example, veteran's benefits and agricultural subsidies. Groups who enjoy such benefits have traditionally been able to effectively mobilize political support for their policies.<sup>13</sup> One would not think this to be the case, however, when a concentrated group of people must bear the costs for widely distributed benefits, since the organizational and tactical advantage belongs to the group bearing the costs. In fact, policies exhibiting these characteristics are being adopted, perhaps with increasing frequency. Usually they are a result of "the successful mobilization of a new, usually temporary political constituency,"<sup>14</sup> occasionally aided by a dramatic crisis or sympathetic coverage in the mass media.

A final pattern of distribution occurs when a concentrated group of people must bear the costs for benefits enjoyed by another concentrated group of people. Policy changes in such a situation "occur as the result of negotiating bargains among preexisting associations or changing the political balance of power among them."<sup>15</sup> Neither is easy, since the former involves a tedious process of mediation, and the latter an "effort to change partisan or ideological coloration . . . [which] will be fought every step of the way by the organized opponents."<sup>16</sup>

Given these constraints, how successful can a budgeting technique be in effecting program changes and achieving cost reductions? The question is much easier to pose abstractly than to answer concretely. Conflict and bargaining are the essence of politics, and few processes engender more conflict nor require more bargaining than does the allocation of money. Nevertheless, there has been a prevailing myth that crude political concerns have no place in a matter as important as budgeting. Although some political scientists will acknowledge the importance of group activity in the perpetuation and growth of programs, few will acknowledge the importance of the ambition of politicians and the sensitivity to this of administrators. The emphasis is rather, as we have seen, on mechanical processes, with a few commentators analyzing cognitive requirements. When budgeting reform movements fail, as they inevitably do, the reasons given virtually always address mechanical difficulties. While acknowledging that these are indeed contributing factors, I would assert that the more pervasive reason for failure is a lack of political sophistication.

To test this hypothesis, case studies were conducted of the zero-base budgeting process as it was conducted in Broward and Orange counties. While other cities and counties practiced a modified form of ZBB, these two counties are the only ones in Florida that instituted county-wide a ZBB system very closely resembling the federal model. The results of

those two case studies is presented in the following chapter. A caveat regarding the conclusiveness with which the data can be interpreted is in order. While a number of administrators, budget analysts, and legislators were interviewed, after having been granted anonymity, the candidness of a few was still somewhat difficult to assess. Viewed objectively, the legislator has little incentive to discuss the importance of his/her electoral concerns in final allocation decisions. Budget analysts frequently view their role as one of maintaining fiscal prudence despite persistent pressures for increases from administrators. Finally, although it may bear little resemblance to reality, it is nevertheless a point of pride, and a most vocal one, among administrators that they make budget requests that are built on logic rather than political astuteness. To admit any less would be to reveal dangerous doubts of actual program worth. Great care was taken, therefore, to ask open-ended questions in an inquisitive but completely unthreatening manner. The resulting data are, I believe, both comprehensive and revealing.

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CHAPTER VIII  
THE ZBB EXPERIENCE IN LOCAL GOVERNMENT

Orange County, Florida

A combination of factors led to the adoption of a zero-base format for the preparation of Orange County's fiscal year 1978-79 budget. The county, which lies in central Florida with Orlando as its seat, boasts a large, professional administrative staff and offers a diversity of services and support structures--there are 43 departments, grouped into six major divisions--and had at the time a general fund budget in excess of 50 million dollars. Despite this, there was no professional budget staff charged with receiving departmental budget requests, evaluating them for feasibility, making recommendations to the County Commission, or auditing subsequent expenditures. The County had, in fact, had a full-time Administrator for only ten years, and he enjoyed very little control over budget preparation. Department budgets were formulated essentially by having department heads go to their liaison Commissioner with their requests to conform to available revenues. The Administrator had on his staff, however, an analyst who closely followed national politics and had taken an interest in President Carter's plans to have the federal budget prepared using a zero-base format. He suggested that since "the handwriting was on the wall--budget retrenchment was coming",<sup>1</sup> the Commission could be

sold on the new format as an information gathering device that would enable them to intelligently distribute ever-scarce resources across many valuable service areas rather than simply maintaining the status quo. The Commission did indeed like this idea, so much so that they allocated \$70,000 of General Revenue Sharing Funds to hire a consultant from Washington, D.C. to design a ZBB system for the County. As one official pointed out, zero-base was the buzz-word of the day. During a time of taxpayer's initiatives such as Proposition 13, it gave the Commissioners something they could publicly point to as progressive management. By happy coincidence, the ZBB system also gave the County Administrator and his staff enormous control over budget preparation, and in fact led to the establishment of the now powerful Office of Management and Budgeting.

Another factor promoting the adoption of a ZBB system was a general feeling of dissatisfaction with the line-item budget that was in use. In tones reminiscent of the ZBB experience in Georgia State government, the feeling was expressed that anything had to be better, although the only specific charge against the line-item was that it helped maintain the status quo. In this mood, then, ZBB was presented to the County's managers in numerous training sessions with the consultant as a better way of making decisions through the provision of more information on service functions and levels. An improved thought process was to occur. As one analyst

asserted, "Rather than taking what we did last year and adding five percent, we should rethink whether in fact we should be doing this at all."<sup>2</sup> As with any new proposal, there were some managers who eagerly sought advantages to be derived from the new system, and others who were just as adamant in their protests that it was a complicated, futile waste of time and energy that ultimately would have no impact on funding decisions. Zero-base budgeting lasted for three years in Orange County before officials in OMB reluctantly admitted their disenchantment and abandoned the system. Its successes and failures, and the reasons for its eventual demise, can be understood quite readily by analyzing features discussed in previous chapters.

Although ZBB was not presented to managers as a cost-saving device, the concern over decreasing revenues and the Commission's insistence that millage be rolled back were paramount concerns during budget preparation. Citizens of the county had recently been subjected to increased property taxes and Commission meetings had been packed with irate citizens demanding relief. Nevertheless, the general fund budget has increased dramatically during the time ZBB has been practiced, up from \$49,483,847 in fiscal year 1978-79 to \$82,855,211 in fiscal year 1981-82.<sup>3</sup> Analysts, Commissioners, and department officials give several reasons for this, with one of the major reasons being an increased growth in "uncontrollable expenditures". Among these are an increase in



retirement costs, an increase in the employer's share of payments to the county's medical benefits, an increase in social security taxes, and a larger reimbursement for travel per diem. Additionally, the fire department and other elected officials in the county--such as the Clerk of the Court and the Sheriff--draw their budgets from the General Fund, which is the major operating fund. Although their budgets are subject to review and approval by the Board of Commissioners, they enjoy appeal rights to the Florida Cabinet. The result is a negotiation session between the Board and the elected officials, especially the Sheriff, who enjoys the largest budget, during which a compromise is reached between what the officials can accept without going to the Governor and what the county can fund "without it being totally unpalatable".<sup>4</sup> As the budgets of elected officials have increased, however, the departments under direct control of the Board have had to absorb the costs. The net result is that the Board has only limited discretion over approximately 40 percent of the budget, and within that amount there are a number of mandated federal and state programs which further reduce the Board's flexibility in dealing with financial considerations.<sup>5</sup> These uncontrollable expenditures were left virtually untouched by the ZBB process. As one analyst complained, "Zero-base did very little about addressing the issue of mandated costs. As flexibility to derive additional resources becomes less, we find that more of our expenditures are controlled by someone outside our organization."<sup>6</sup>

Other officials point out that not only uncontrollable but also unexpected expenses are not given adequate treatment by the ZBB process. For example, if fire guts a county office building, new space must be rented. If the jail floods or a sewage line breaks, repairs must be made. ZBB, as it was practiced in that jurisdiction, provided no flexibility in departmental budgets since contingency funds were eliminated, thus unexpected expenditures must be covered by making time-consuming pleas to OMB for more funds, or by simply ignoring the mandates of ZBB and switching funds from one account to another.

Nevertheless, the controllable portion of the budget is large, and does leave considerable room for discretionary spending. Over the years, the county has indeed seen a reduction in some expenditures and an elimination of some programs, but analysts are quick to point out that those decisions were a result of good management practices and were not necessarily made because of information gathered during the zero-base process. For example, the county-run convalescent home, with a patient population of 28 and a staff of 28, was closed as simply not cost-effective. Attempts over a number of years to make it a profit-making institution had failed, thus the decision to close it was made independent of the ZBB process although it occurred during that time period.

Another factor leading to the demise of ZBB was the extreme unpopularity it suffered among departmental officials

and the resentment it generated toward the OMB. Many of these feelings apparently sprang from a sense of futility. Much effort was being expended with no discernable difference from before in how one's budget was received or in how the final allocation decision was made. The common complaint of mountains of paperwork was repeated by all involved in the process. According to ZBB tenets, a large amount of paperwork will be generated simply as a result of specifying alternative ways of doing things. One analyst, whose views echoed others, remarked that she could not help but believe that a rethinking of priorities and a refocusing of objectives could be accomplished without the tons of paperwork. Along with this was the unhappiness with the manner in which ranking sessions were conducted. Many of the departments had great difficulty understanding the rationale of the ranking process and were unhappy with having their levels of service compared to levels of service in other departments. Many felt that they were at "a cattle auction", and the sessions degenerated into shouting matches. One official pointed out that ZBB asked people to cut their own throats. "The ideal conditions it (ZBB) requires can never be fulfilled as long as you have humans making budgets."<sup>7</sup> The tremendous amounts of paperwork and hard-fought ranking battles proved to be ultimately useless, however, since the OMB converted the aggregated budgets of the various departments back to a line-item format. While this process may be necessary for computer formats and auditing purposes, OMB apparently took

great liberty to adjust figures as they saw fit. One analyst admitted that OMB believed many of the line-items reflected inflated totals. OMB, therefore, simple "reconstructed or corrected" service-levels and decision-units that had been submitted to make them conform to line-items of expenditures. When total dollars exceeded those available, instead of dropping programs below the cut-off line, OMB manipulated the rankings with available revenues spread out over as many programs as possible. They defend this in part by pointing to a lack of time. While conceding that it is true that a department's priorities, and thus their rankings, will be affected by what they expect their available revenues to be, OMB officials protest that they get a tax role in July and have to submit a budget to the Board in August. "We have no time to go to a department and say what would you do with this amount of money. We just make cuts and grant increases where we think best."<sup>8</sup> Because of this, however, the ranking system, the very essence of ZBB, was not used during the last year of ZBB (1981-82), having proven an exercise in futility.

It should be noted that officials in the finance department point out that administrators are not always victimized by the conversion of their budgets to line-items. They may want and profit from a line-item approach, since in many cases it is the only type of budget they understand. They assert that the average manager is not well-trained and is therefore fairly unsophisticated about financial management. When complicated budgeting systems with mechanics that are difficult

to grasp are introduced, a spirit of rebellion prevails and budgets that are either too high or too low truly are submitted. One analyst summarized, "people think I'm crazy for saying this, but the best system is the simplest-the line-item budget. You get less false data from padding and more honest information."<sup>9</sup>

Partially as a result of ignoring rankings and making last-minute budget adjustments, zero-base failed to replace the traditional practice of granting incremental increases in a department's budget. Departments were given no minimum or maximum level of budget that they could submit, but it rapidly became known that anything beyond current level was red-flagged by OMB. Officials in OMB, in fact, admit that their policy was to grant a department its current budget along with some adjustments for inflation. As one administrator protested, there is very little incentive to put a department through the work required by ZBB if the outcome is going to be essentially an incremental one.<sup>10</sup>

Administrators further complained that a great deal of time and effort was spent "dreaming up" or "grabbing out of the air" performance indicators for different functions in their departments. While all agreed that having this data would be valuable, none thought that it should be a part of the budget preparation. Because of the time constraints and the necessity of gathering so much other data, the performance indicators were never validated. The result was that a potentially valuable tool for departments was seen as yet another burden placed on them by ZBB.

The most ambiguous yet pervasive complaint expressed against ZBB in Orange County is also the most ironic. Originally promoted on the national as well as the local scene as a way to strengthen managerial abilities and promote cooperation among departments, ZBB came to be perceived as a villain that robbed administrators of their management prerogative. Part of this apparently occurred as a by-product of the fledgling OMB trying to establish control over once autonomous departments. While the OMB was not specific in requesting minimum or maximum figures for budgets, they were very specific in some other areas. For example, departments were told that at the current level, they could not include reclassifications of personnel, any new personnel, or new equipment. Replacement equipment would be allowed. OMB officials now admit those instructions and similar other ones issued by their department limited the flexibility of managers. As one manager asserted, "If I feel I can manage my program better if I have a new piece of equipment and I'm willing to give up a body for it, I should be allowed to make that decision."<sup>11</sup>

Still another manager registered complaints about ZBB that seem to offer a succinct view of the broad picture. He noted that ZBB took away the management prerogative by allowing someone other than the manager himself to establish priorities and tie those priorities to budget allocations. While on the surface this may seem like a good idea, it is infinitely less

preferable than a line-item budget that allowed him to shift funds and establish priorities himself. The line-item budget, he noted, took the pressure off of him from elected officials:

They (elected officials) routinely call and want me to undertake some special project for them. With the line-item budget, I could accomodate them by shifting funds, reaching into my contingency, or dropping something else that I had planned to do. I like to expand my department's responsibilities, volunteer for projects when I first get wind that the Board is interested in something my department could do. It's a power play, but one any astute manager would make. With the zero-base system, I have to stall them and see the opportunities slip by while I beg OMB for more money. I feel impotent, while the elected officials just get irritated. Clearly, their special projects get priority, and I'm going to accomodate them. There's no need to elaborate on why.<sup>12</sup>

His point is well-taken, since it is repeated by virtually everyone on every level. The incompatibility of ZBB with the political realities existing in the county appears to have been its ultimate failure. The political problems it engenders covers a spectrum from the concrete legal impossibility of moving funds across accounts to the more subtle practices of politicians who want to stay in office, and the ability of bureaucrats to recognize and use to their advantage this ambition.

Occasionally, a fortunate combination of circumstances saves politicians from having to publicly reveal their priorities. Each year, before budget preparation packages are sent out by OMB, Board members are interviewed as to their program concerns, and to "obtain a feeling for what the Board thinks is important."<sup>13</sup> For example, "road programs, law enforcement, and fire protection are almost very always very high priorities. Social services

generally are not, because you can't sell them to the voters." <sup>14</sup>

Priorities that disrupted this order, however, did not need to be sold to the public since rankings across various programs did not occur. As one analyst remarked, "It would be useless to rank a highway improvement against a social service since highway improvements come from a fund provided by the Road and Bridge tax and a social program isn't even in the same fund." <sup>15</sup>

This is one of the areas in which ZBB was found deficient.

It makes the assumption that you can rank a road project against a social service, and you cannot for two reasons. One is because the restrictions of the fund structure will not allow you to do that, and the second is because it is politically infeasible to do so. You just don't do that. You do it intrinsically, but you don't do it publicly. You have to keep your social services and administrative functions separate from hard service areas. It would place the Board in an impossible political situation to trot all that stuff out for debate in front of the voters when you know what they (the voters) want and what they put you in office to provide. Even within funds you do in fact decide which is more important-services to the elderly or services to children. But any Board member would never put a priority on one over the other. <sup>16</sup>

Board members point to a citizen survey recently published by the local paper which indicates that 26 percent of the population would like to see the (then) proposed increased sales tax used for more police protection, another 26 percent favored decreased taxes, while only 7 percent would use it to increase social services. This opinion, they assert, is not a new one. So while they are committed to maintaining a level of social services, there is no political mileage in increasing them to the detriment of other service areas.



This is not to say that the departments providing social services must wait helplessly for whatever funds may come their way. As one official remarked, "We compete very vigorously for the dollar in Orange County."<sup>17</sup> He went on to comment vaguely that he drummed up support for his programs by "using the media and the public alot."<sup>18</sup> Such projects as, for example, having juvenile delinquents from a detention center entertain patients at a convalescent home receive prominent media attention, and "come budget time, this is not forgotten."<sup>19</sup> It is also not forgotten when large groups of people appear at Commission meetings to protest proposed cuts. One official offered as evidence of the public power a local office that provides services to veterans. It was established in 1945, and was to exist for one year, to help returning World War II veterans find jobs and homes, provide them with meals and lodging, etc. The office is still in existence today, although the Board has wanted to stop funding it for years. When word of the latest proposed budget cuts filtered through to veterans, over 1500 marched on a Commission meeting. The service was predictably refunded.<sup>20</sup>

Some other managers with a spirit of independence have also garnered support for their programs by expanding their services through contracts with private and state agencies. This has served a twofold purpose. It has given them some outside income, and it has cast them in a visible and favorable light as concerned, progressive managers. The result has been a quiet increase in the budgets of social programs as opposed to a noisy, well-discussed increase in the budgets of hard service programs.

In some cases the Board of Commissioners has encouraged departments to make a public appeal to avoid budget cuts, much to the chagrin of the OMB. In fiscal year 1980-81, for example, OMB decided to recommend no funding for private not-for-profit agencies, whereas in the past few years close to \$500,000 was provided to them from federal revenue sharing funds. The Board, however, decided that these agencies did provide vital services so they would be helped if they in turn would agree to help the Board. Recent public hearings had been attended by hundreds of citizens who were angry over increased taxes, while program directors, in keeping with their traditionally nonpolitical role, had not been voicing their opinions at public hearings. The Board let it be known that they were "tired of taking the heat". They wanted personnel from the non-profit organizations to confront voters at public hearings and remind them that social and cultural opportunities were important to the community and deserved funding even though it meant increased taxes. The agencies of course complied, and with them providing the moral support, Board emembers restored their budgets. In reviewing the situation, one analyst remarked, "Perhaps Wildavsky was right. As long as you can't change the way in which decisions are made, save yourself the agony and do a simple line-item budget." <sup>21</sup>He continued that as long as we live in a political environment, there probably is no way to change the way in which decisions are made. <sup>22</sup>

Nevertheless, budget retrenchment has hit Orange County, and Board members have steadfastly refused to raise tax millage. Fiscal realities therefore will no longer permit incremental increases in the budgets of every department. Along with this retrenchment has come a realization by officials that ZBB is not a satisfactory technique for preparing shrinking budgets. One official wryly commented that "zero-base is very good if you have lots of money and the decision is which of the new programs that I am asked to fund should I in fact be funding. It is much more difficult when the question is, of the programs I have now, which ones should I eliminate. ZBB only makes that situation worse."<sup>23</sup> In an effort to make these decisions a little easier, several new techniques will be employed during budget preparation time. No name has as yet been adopted for the format to be used, although it appears to be essentially a line-item budget. Its emphasis is on greater manager flexibility and the preparation of a "worst-case" budget. Managers will be told during the first week of March in specific dollar amounts the very lowest their budget can be expected to go. They will then be free to determine where to make the cuts necessary to submit a budget that conforms to the specified dollar amount. There is great hope that managers will be less discontent with a reduced budget if they have a voice in whether the reduction is a person, a reclassification or a piece of equipment. They will also submit a budget that reflects the amount necessary to continue their current levels of service, which will be considered in the event that the worst

case does not materialize. The Office of Management and Budgeting is also making extensive efforts to educate the public about budget realities "on their own turf". They have, for example, attended meetings of the homeowners' association to explain what a small percentage of the budget is discretionary and how this affects their tax rates. Much of this is an effort to avoid having large crowds of irate citizens at public hearings demanding simplistic solutions to rising costs, such as "cut the fat from programs".<sup>24</sup>

Since the first budget to be prepared using this new philosophy and new techniques will not be submitted until August 1982, its success over ZBB in achieving fiscal conservatism remains to be seen. Considerable effort has been expended to make budget preparation and submission for fiscal year 1982-83 a less politically volatile time, but success in this area is likewise unclear.

#### Broward County, Florida

"Zero-base budgeting hardly made a ripple in the budgetary process in Broward County."<sup>25</sup> This is how one official described his perception of the impact of ZBB, and subsequent interviews with others involved in the process reinforced the accuracy of his observations. Zero-base budgeting slipped unobtrusively in and out of the Broward County government, raising only a few eyebrows and making no lingering impression. It was seen very much as an experiment which did not seriously threaten the security of anyone's budget or position.

Broward County, lying on the southeast coast of Florida with Ft. Lauderdale as its seat, boasts a large budget and a highly trained, professional staff of analysts in its Office of Management and Budgeting. ZBB enjoyed its most extensive use during the fiscal years 1978-79 and 1979-80, although some officials insist that remnants of the system remain in place today. At the beginning of the ZBB era, the county had a budget of approximately \$100,000,000. It has since grown to a staggering \$162,000,000.<sup>26</sup> Unlike its counterpart in Orange County, the OMB has been in place for a long time and its analysts enjoy, for the most part, amicable relations with departmental officials. Analysts are routinely reassigned to different departments to prevent cooptation. During the ZBB era, there were 100 departments with an average of four (4) divisions each. Annual budgets are presented to OMB for review and initial adjustments and compromises. Final details are worked out with the County Administrator before each department head presents his request to the Commission. In contrast to Orange County, the process seems to work smoothly, with virtually no tensions or resentments among analysts and departmental officials expressed.

It is widely understood that ZBB was instituted and abandoned in Broward County for purely political reasons. The County Administrator at the time was a flamboyant, highly-visible person who eagerly sought opportunities for publicity. He and some influential members of his staff were avid supporters of the Carter candidacy, and had maintained close contact with

the Administration in Washington. They, like officials in Orange County, recognized ZBB as the buzz-word of the day and saw in it the opportunity to demonstrate to the public that they were seeking avenues to improve the management of the county. They were also aware that, with the proper Commission support, ZBB substantially increases the influence of the County Administrator's office. The Administrator was, however, astute enough to present it to the departmental managers in a very non-threatening manner, and the managers were apparently not at all threatened by it. One perceptive official noted that he, for one, was certainly aware that ZBB was not adopted on its merit or even because a change was perceived as necessary, but because of the political ties of the County Administrator to the "administrative apparatus in Washington."<sup>27</sup> When the County Administrator left his post to run for elected office, a much lower-keyed individual replaced him. He was also eager to imprint his style, but in a much quieter manner. He saw ZBB as a major process that was a constant reminder of the influence of the previous Administrator, and he was also aware of the political problems the Commission was suffering at the hands of ZBB. Knowing he could count on their support, he announced to the managers that, in the name of giving them more flexibility, he was abandoning the zero-base budgeting process. Since the problems caused by ZBB had been minor but irritating and constant, he immediately gained the managers' support by no longer requiring it. The

problems and successes of ZBB in Broward County can also be analyzed by placing it in the framework constructed by the previous chapters.

Department officials were told that the major benefits to be derived from the zero-base process would be a definition of alternative methods and service levels that would enhance the ability of all levels of management to make progressive and meaningful decisions.<sup>28</sup> By performing a detailed review of ongoing operations and expenditure levels, the value of reallocating funds from existing low priority programs to high priority new programs could be analyzed. ZBB was not, however, presented as an overall cost-saving device and, in fact, there seems to have been very little concern over whether it would save the county any revenue or not. Budget retrenchment was simply not a reality at the time. As one official proudly asserted, "I quite frankly never had any fears that I would loose funds in the process, nor have I ever lost one cent".<sup>29</sup> Budget officials have not compiled statistics on that portion of the budget that is considered uncontrollable, but readily acknowledge that it is undoubtedly a large percentage with further increases expected in the future. Crime, for example, has been rampant in the area for the past few years; consequently, expenditures for the criminal justice system have increased dramatically. Given the recent influx of refugees and the public concern with increased safety measure, many of the expenditures in the law-enforcement budget will continue to

be uncontrollable. On the whole, however, concern over achieving cost reductions was not a factor while ZBB was in use in Broward County.

Some officials did express annoyance over the vast amount of work, particularly paperwork, generated by the process when the final decision on their budgets reflected the same total as would a simple line-item format with incremental increases. One official, in analyzing what he felt was the futility of the process, asserted

the theory (of ZBB) was fundamentally sound. It makes a lot of sense and has a lot of appeal. This is one reason why so many elected officials have bought off on the concept so readily. It sounds beautiful. But putting it in motion and carrying it out is a monumental challenge in terms of the paperwork it generates and the level of expertise required to analyze the data that are generated. Few budget shops or managers have the talent to do that well. To even try is an overwhelming task. 30

The amount of paperwork generated was indeed monumental. Each of the 100 departments prepared approximately four decision packages. One analyst observed that the budget process is an ever-changing one and that the logistics of routing, rerouting, and keeping track of that many packages was more than his office could responsibly handle.<sup>31</sup> The preparation of packages and the initial rankings of those packages, in contrast to Orange County, did not seem to cause any serious problems. Division officials were asked to prepare packages reflecting four levels of service: (1) up to 90% of current level, (2) up to 100% of current level plus a cost-of-living increase, already agreed upon by the Commission, (3) an expanded level anywhere between



100% and 125% of current level, and (4) a further expansion up to 125% of current. Managers, however, were given an approximation by OMB at the start of the process of the final budget they could reasonably expect to receive, thus they could arrange priorities to reflect funds available. Even so, there were "many" cases of managers requesting expanded funding for less popular programs while placing essential and/or very popular ones close to or below the cut-off point. Analysts claim they recognized most, if not all, of these attempts at ranking manipulation and spent many hours arguing with managers who subsequently had to redo their rankings. OMB was not, however, the final authority on rankings since department heads frequently appealed their priorities to the County Administrator and in some cases to the Commission. One analyst noted that "on several occasions" he had recommended the reduction or elimination of a service that was "clearly not cost-effective" only to have the program manager appeal to his friends in Administration and win an increase in the budget for the service.<sup>32</sup>

Many officials claim that, in the final analysis, all the data on alternative service levels were not very useful, nor were they used, in making budget decisions. This occurred for essentially two reasons: managers did not have a good basis of information from which to draw their data, and they were not particularly adroit at putting together what they did know. The original data was never challenged in a thorough manner, thus a firm foundation for "high-powered analytical work" down the line

was never established. There simply was not, according to several analysts, enough criterion in place by which to make informed judgments on submissions. The information that was submitted was not presented in a meaningful or useful format. Cost accounting, for example, is considered essential by many people to effective zero-base budgeting, and this is totally lacking in Broward County government. As one official summarized, "If you are going to meaningfully cost out programs, you have to have the information at hand that correlates to service delivery to portray it, to lay those alternatives out and cost them."<sup>33</sup> He went on to say that if he could find anyone who believed the cost data he had seen generated he would love to sell them their next used car. No one could in good conscience, then, make a final decision on the worth of a program or at what level to fund it based on the data generated by the ZBB process. As one manager remarked, "If you do not have a unique source of supply for some improvement, then why attempt to identify a particular budgetary approach as a source of such ideas?"<sup>34</sup>

As a result of these and other problems, ZBB changed virtually nothing about budgeting in Broward County "just as" one official remarked "my friends in the federal government tell me it change nothing there."<sup>35</sup> One of the most fundamental things that it has failed to change was a line-item, incremental approach to budget formulation. It is widely agreed that ZBB failed to do this for two broad reasons, accountability and tradition. As will be recalled from previous chapters, the most important function of a budget throughout history has been to provide

accountability, or a detailed record of how appropriated funds are spent. This has always been done, by appropriating and spending using a line-item of expenditure approach. He continued that he had read articles arguing that an elected body need not appropriate by line-items, but could rather appropriate by program then have program managers provide accountability by how well the program achieves what it is supposed to. "This is probably how ZBB is supposed to work, but to me, it doesn't ease the accountability problem. I still want to be able to tell by line-item how every dollar is spent."<sup>36</sup> Another reason why the line-item approach is so fundamental to the budgeting process is the powerful and pervasive influence of tradition, an influence which everyone involved in budgeting acknowledges as a force to be dealt with but never ignored. As one official remarked,

It is philosophically fallacious to employ a budgeting concept predicated upon the notion of total discontinuity with what has gone before. That is antithetical to any<sup>37</sup> kind of system notion, historical or traditional notion.

He continued that any kind of budgeting system that has as its initial approach that kind of disjuncture is at the outset suspect. To avoid breaking faith with citizens, officials make small changes slowly, or in budgeting language, incrementally. This is not to say that the status quo is unchanged or that people can always expect a small increase in services. Within the past two years, for example, budget retrenchment has become a reality in Broward County, and reductions in budgets must

inevitably follow. This, officials say, will be accomplished the way change is always accomplished-incrementally, by line-item. They boast better information systems which will allow them to evaluate the impact of a reduction in one area on spending requirements in another, thus reductions may not occur across the board for each program, but no single program within a department can expect to suffer the full force of that department's revenue shortfall.

The feeling gathered from most of the interviews was an awareness of a fundamental ambivalence among the public on government expenditures. On the one hand is a deep-seated fear of government getting larger, more uncontrollable, and more expensive. On the other hand, specific benefits are seen as very desirable. One Commissioner noted that you could take just about any wild-eyed, obscenity-spouting, tax-increase protester at one of their meetings and ask him if he received any special government benefits, and he would inevitably reply that he did. Further, he would generally see these benefits as a good thing-not to be tampered with by the Commission. He had therefore concluded that re-evaluating the worth of all programs was "straining at gnats". His feeling was that parts of one or two programs might be identified that could function a little more efficiently, but "if there is any service we can get by with reducing or eliminating, we've already done it."<sup>38</sup>

This last statement betrays one of the major reasons for the failure and ultimate demise of ZBB. Elected officials

already know what they "can get by with", particularly when it comes to gathering or losing political support. Budgets prepared using the ZBB method in Broward County, as in Orange County required decisions and arranged options in a manner that was unacceptable in the political arena. The problem was perhaps less pronounced in Broward County since in many cases analysts and officials were fully cognizant of the priorities of each Commissioner and simply did not submit budget recommendations that called for reductions in these priorities, thereby avoiding the displeasure of the Commissioners. "You have to realize", one analyst observed "that each Commissioner has a little pet project going, usually one that will help him get re-elected. There is no way they're going to cut those programs."<sup>39</sup> Again the sentiment was echoed that ZBB was very good for adding new programs or increasing funding to popular existing ones, but "when it comes to pointing the finger and handing out reductions, no one wants to get specific."<sup>40</sup> The political naivete exhibited by ZBB was particularly apparent on three fronts. The first was in failing to recognize that some programs which do not necessarily "cost out" or even enjoy much apparent popularity are nevertheless highly visible and generally regarded as desirable, thus overt efforts to reduce them meet with opposition. The Department of Health and Medical Services and the Department of Social Services were cited as excellent examples in this context. Both departments offer services that are highly visible in the county, partially because they cultivate opportunities for media exposure. As a result,

they have enjoyed relative budget security despite massive reductions in federal funds and CETA positions. Analysts readily acknowledge the difficulty of cutting these programs since "they offer so many services to so many people, and the managers in those departments can present a united front to the Commissioners."<sup>41</sup> Indeed, departmental officials note with some satisfaction that they are dedicated to their programs, even though they often come under attack on philosophical grounds when the economy worsens. "Nevertheless" one asserted "we still like to think of ourselves as a benevolent society, and that is certainly an attitude we encourage."<sup>42</sup> On the other hand, less visible programs have to scrape for additional dollars. One analyst identified Central Services and Finance as two departments that seldom receive much of an increase. "These are in-house programs. The public cannot identify anything they do as a personal benefit, so there is no mileage in giving them a raise."<sup>43</sup>

It is probably inevitable that reduced funding would be recommended to the Commission for some programs despite efforts of analysts, department heads, and the County Administrator to negotiate terms before the budget hearings. Logic alone indicates that not all programs perform at peak efficiency, nor do all programs deserve expansion. A conscientious budget staff probably can target some programs where savings could be realized. Unfortunately, the format of ZBB prevented this from becoming a reality. Areas that would receive a reduced budget recommendation were identified far in advance of the budget

hearings, thus giving the managers of the targeted programs ample opportunity to organize support efforts for the programs. One Administrator candidly remarked that there were "a couple of times" when it looked like his budget would be cut, so he just let his constituency know what was getting ready to happen. "First thing you know, there are letters on Commissioners' desks and a crowd at City Hall saying how much they need this program. I always got an increase."<sup>44</sup> Analysts and Commissioners agree that public pressure is a potent force that will frequently outweigh logic. They cite the "sage of the kosher food inspector" as an example in this area. The county had employed an inspector who was charged with insuring that kosher food establishments did in fact sell kosher food. There was later some evidence that he was both overpaid and inefficient. The County Administrator's office subsequently recommended that his position funding be eliminated on the grounds that he served only a small portion of the county's population, and that the rabbis of the community either perform the service or pay someone to do it. The Commission agreed and passed on the recommendation. Such and overwhelming outcry came from the Jewish community that funding was restored almost immediately. A similar situation occurred when the county attempted to end animal control services to one of the fringe areas. One Commissioner remarked that he "never had any idea the people out there felt so strongly about animal control."<sup>45</sup> But they did, and funding was restored. It might be pointed out (as it was in an interview) that the formal position of the professional administrator is to carry

out the wishes of the Commission and not engage in political activity designed to influence those wishes. One Commissioner agreed, but remarked that he had "met only one administrator who said he was intellectually opposed to whipping up the constituency in support of budget increase, and that was because he was in-house and had no constituency."<sup>46</sup>

A final area in which ZBB fails to adequately take into account political realities occurs when very popular programs suddenly require extensive or expanded funding. When this occurs, rankings must be rearranged or simply ignored to allow the program in question to assume priority. This violates the principles of ZBB and renders the hours spent on rankings a waste of time. But the fact is that when popular programs unexpectedly seek additional funds, Commissioners are likely to grant them. This was the case in Broward County when the Spouse Abuse program and the Witness Liason program lost their grant funding. Both had become enormously popular since they were promoted as successful attempts to ease the burden on the criminal justice system. The first priority of the Commission became full funding of those programs. Analysts assert that pure ZBB analysis might very well rate these programs as very worthwhile, but future programs that might not appear as worthy may enjoy increased support because of public appeal. Most funding recommendations are not momentous political decisions; most are hardly discussed as programs drift quietly along from year to year, performing an acceptable function with acceptable efficiency, and receiving incremental increases as a matter of course. There



is universal agreement, however, that when definitive changes either up or down occur in the budget of a department they do so because of the political acumen of the actors involved and not because of the data and analysis supplied by processes such as ZBB, although these can occasionally be used for back-up.

As have most other areas of the country, Broward County has been hit squarely with the reality of revenue shortfalls within the past several years. Federal funding has decreased, payment on the debt service has come due, and the cost of providing the same level of service has risen. When Commissioners announced plans to increase ad valorem taxes by 29%, they were greeted by over 2500 taxpayers threatening an impeachment move. Budget retrenchment hit in full force, and the Commission responded by reverting to the favored method of making budget reductions. They gave every department an across the board decrease of 10%. The new County Administrator in turn announced a return to a form of program budgeting which is almost identical to that being tested in Orange County. Department heads are being asked to prepare a worst-case budget, and are being given responsibility for identifying where the cuts will come. Life will become a little more difficult for program managers, but Commissioners can point to fair and equitable treatment of everyone; ironically, regardless of merit. The basic philosophy of ZBB has apparently not made a lasting impression in Broward County.

1. Interview with Orange County Official.
2. Interview with Orange County Official.
3. Orange County Zero-Base Annual Budget, Fiscal Year 1981-82, p. S-18.
4. Interview with Orange County Official.
5. Orange County Zero-Base Annual Budget, Fiscal Year 1981-82, pp. S-3, S-4.
6. Interview with Orange County Official.
7. Interview with Orange County Official.
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23. Interview with Orange County Official.
24. Interview with Orange County Official.
25. Interview with Broward County Official.

26. Broward County Annual Budget, Fiscal Year 1982, p. 3.
27. Interview with Broward County Official.
28. Zero-Base Budgeting Procedures Manual, Fiscal Year 1979-80, Broward County, p. 3.
29. Interview with Broward County Official.
30. Interview with Broward County Official.
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## CHAPTER IX. CONCLUSION

It would be extremely difficult to argue with the concept of zero-base budgeting. It would be safe to assert that almost everyone, both inside and outside of government, agrees that organizations should be periodically subjected to an intense scrutiny of their operations to insure that they are existing for a legitimate purpose and/or that they are performing their functions efficiently. The problem lies in tying that evaluation, essentially a management function, to the allocation of operating funds. The experience of jurisdictions that have used ZBB seems to conclusively demonstrate that the budgetary process is not a well-suited medium for attaining management improvements.

It was perhaps a disservice to ZBB to introduce it in language that indicated it could achieve more than any managerial or budgeting technique can reasonably be expected to achieve. It is also unfortunate for ZBB that the Carter Administration was unable to lend aggressive, successful support that would have pulled the concept over the initial rough spots and given it a long-term currency. Even so, it is safe to assume that ZBB could not possibly have lasted and continued to be practiced in the form in which it was introduced. Its many failures need not be reiterated here. Suffice it to say that many public managers are professional, well-educated

administrators who are confident that they can accomplish necessary management changes without the organizational disruption and anguish that accompanies the ZBB process. Virtually all politicians are unwilling to end their careers, or seriously jeopardize them, by singling out particular programs to bear the burden of budget reductions. As we have seen, the support even the most obscure program enjoys may be latent but powerful. It would be simplistic to even attempt such action on sacrosanct programs. Nevertheless, budget growth on all levels of government has been and continues to be astoundingly rapid, and has caused justifiable alarm among the citizenry. But merely reducing levels of service, trying slightly different methods of delivery, or dropping off programs that are too weak to defend themselves, if such programs can be found, does not cut at the core of the problem. The futility of ZBB is that it does nothing to reduce the massive amount of the budget consumed by uncontrollable expenditures. To affect this requires a large-scale re-ordering, supported by massive popular opinion, of the basic obligations and priorities of the larger society.

There are surely some places where ZBB made a nick in the bureaucratic apparatus by forcing an administrator to think of alternative means of service delivery, even if he never planned to use them, or by reminding him that he was going to have to defend his job, so it was worth doing well. There is a ring of truth in one administrator's observation that without some

ultimate questioning of initial purpose, agencies do become monsters that do not serve their constituencies well but refuse to die. Despite its introduction as an innovative technique, it may be pointed out that there is nothing really new in the concept of zero-base budgeting. It is perhaps an attractive marketing term designed to differentiate a product, but it contains elements of many of the reform movements that preceeded it. PPBS, MBO, ZBB and all of what can be called the recurrent fads in budgeting and management in actuality differ very little from each other. They all call for applied good sense. The labelling of particular devices quickly disappears into the muck since the labels or formats themselves are probably not significant anyway. If there is anything enduring about ZBB, it is quite simply the reminder to use good sense in making budget and management decisions.

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### Biographical Sketch

Donna Pierce was born in Roper, North Carolina in 1950. She attended East Carolina University, where she recieved a B.S. in English in 1971. After teaching Junior High English for one year, she moved to Florida and was employed by the State Department of Health and Rehabilitative Service as a social worker. After holding various positions in HRS, she returned to graduate studies at the University of Florida. She received a M.A. in Public Administration from UF in 1979, and was awarded the Presidential Management Internship that same year.

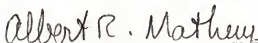
Upon receiving a Ph.D. from the University of Florida, Donna Pierce will be employed as a private management consultant, with plans to return to teaching in the future.

I certify that I have read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Doctor of Philosophy.



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I certify that I have read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Doctor of Philosophy.



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Assistant Professor, Department  
of Political Science

I certify that I have read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Doctor of Philosophy.



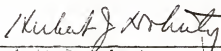
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August 1982



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